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# ***JPRS Report***

# **China**

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## Analysis of Political-Administrative System Reform

40050419 Changchun SHEHUI KEXUE ZHANXIAN  
[SOCIAL SCIENCES FRONT] in Chinese  
No 2, 25 Apr 88 pp 107-115

[Article by Wang Huning 3769 3337 1337: "An Economic Analysis of the Reform in China's Political-Administrative System"]

[Excerpt]

### II

Before the beginning of overall reform in 1978, China had a highly centralized political-administrative system with these four characteristics: 1) Integration of party and government. A revolutionary political party exercised unified leadership over society. Many functions which should be exercised by the government were taken over by the political party, and policies were implemented through direct leadership or unified actions. 2) Integration of politics and economics. Political authorities organized all the productive activities of the society with political and administrative measures, and directly intervened in the production process. 3) Integrated government and law. The old legal system was destroyed in the revolution, and a new one could not be readily established. Legal standards as a means of regulating social behavior were replaced by political means. 4) Integrated government and society. With the means at their disposal, political authorities could bring about changes in social politics, economy, culture, education, arts, religion, human relationships, ideology, and forms of behavior. These were the four main features of China's social-political structure before the reform. They became the foundation of a highly centralized political-administrative system.

In the past, socialist countries generally had a distinctive characteristic, namely, the combination of economic and government activities. Under the capitalist system, most economic units are owned by private individuals who organize and direct the units' activities, while the government only exercises indirect macroeconomic regulation on all except state-owned enterprises. There are no outward relations between economic and government activities, because the government does not directly intervene in the process of economic production. Socialist countries are different. The government directly intervenes in the process of production and directs and organizes production. In the future society envisaged by Marx, society's means of production would be owned completely by the society. This society would function according to a unified plan and avoid the contradictions which, under capitalist conditions, might occur in a state of anarchy if each enterprise has its own production plan. This was the ideological background of the political-administrative system designed by socialist countries

at the very beginning. After a socialist revolution, therefore, social economic activities were generally centralized in government departments for unified management. However, the future social structure envisaged by Marx was based on highly developed productive forces and highly socialized mass production. These conditions did not exist in China after the socialist revolution.

China's political-administrative system, based on comprehensive planning before the reform, was also a highly centralized system with mandatory plans. This planning system covered the main aspects of all national economic activities. A complete planning system included production plans, circulation plans, distribution plans, and consumption plans—the four major categories for social production and national income, agricultural production, industrial production, construction, communications and transportation, means of production and consumption, foreign trade, urban public utilities, distribution of national income, finance, labor remunerations, pricing, and so forth.<sup>1</sup> This economic system specifically included: 1) a highly centralized planned management system; 2) a distribution system of unified state control over revenues and spending; 3) a credit management system of unified savings and unified loans; 4) a materials control system which became an independent distribution system; 5) a system of commodity circulation characterized by purchases on a requisition basis or by state quota, and state monopoly of the purchase and marketing of products; 6) a system of responsibility for labor remuneration symbolized by the "iron rice bowl,"<sup>2</sup> and so forth. These systems were in fact the foundation of as well as the support for a highly centralized political-administrative system. From this we can see that the highly centralized character of China's political-administrative system in the past had a solid economic foundation, and relied heavily on economic activities in its functions. On the other hand, economic activities were also restricted by the political-administrative system functioning within this framework. This characteristic was a decisive factor in the political-administrative system's functions, structure, and form of activities.

Before China's reform, there were inseparable relations between its political-administrative system and what many Chinese scholars called "product economy." Product economy was formed under the guiding thought that socialism does not need commodity economy. This concept held that since socialism does not need commodity economy and commodity production does not exist, market regulation is not considered necessary.<sup>3</sup> Product economy implies that most of the products turned out by state and collective enterprises are directly distributed by the state according to its plan after purchasing them on a requisition basis or by state quota. The net income of state enterprises was also distributed according to state plan and the financial system of unified collection and unified spending. This type of economic mechanism imposed on the political-administrative system the complex task of management. Thus

product economy needs departmental and administrative management.<sup>4</sup> Before the reform, it had such a strong influence on the functions of the political-administrative system that China had practically no choice.

It is apparent that every change in China's economic functions and structure would raise new political and administrative demands. To analyze more clearly the interaction between the economic system and the political-administrative system during the 9 years, let us briefly review the 10 features of China's economic reform in this period. 1) The system of contracted household responsibility with remuneration related to output in the countryside, and the policy of procurement under contract according to state plans in 1985 have guided its rural economy on to the road of a planned commodity economy. 2) It has developed many economic and management forms besides the state economy, collective economy, and individual economy and other economic sectors; and promoted different systems of management responsibility, such as management by contract or lease. Some economic units are now buying one another's shares, and the number of joint management and lateral economic associations now exceeds 32,000. 3) The expansion of enterprises' decisionmaking power has transformed the enterprises into relatively independent commodity producers and managers who are no longer subordinated to the administrative departments. Internally, the enterprises have adopted the system of the factory director assuming full responsibility. 4) Since reform of the planning system, the market mechanism has begun to assert itself, while mandatory plans are now combined with guiding plans. In agriculture, the plans for areas sown to different crops and the output of major agricultural products, such as grain and cotton, are intended only for guidance. In agriculture, the number of varieties produced according to the State Planning Commission's industrial production plans have been reduced from 120 in 1984 to 60. In circulation, the number of material varieties to be distributed by the state has been reduced from 256 to 20. 5) Reform of the circulation system has accelerated the development of the commodity market. It has broken down the closed, multi-tier, and single-channel system of level-by-level allocation under administrative orders. The market for the means of production, short-term money market, technology market, and labor market, have also developed to varying extents. 6) The irrational price system and the over-centralized price control system have been reformed. 7) Reform of the wage and labor systems has broken "everyone eating from the same big pot" and the "iron rice bowl." 8) Reform of the financial and tax system has developed a regulatory function for tax collection. 9) Reform of the monetary system has helped develop money markets. 10) Reform of the comprehensive economic system in urban areas has strengthened the lateral economic association of enterprises and regions with cities as their support, large and medium-size enterprises as their backbone, and the development of products and resources as their central tasks. Reforms in these economic areas clearly indicate the need for an

economic structural reform and then a reform of the functions and structure of the political-administrative system. Essentially, the principle behind the economic structural reform is to change direct regulation into indirect regulation, microeconomic control into macroeconomic control, product economy into commodity economy, and comprehensively planned economy into a planned economy supplemented by market economy. This reform will necessarily touch on the society's macroeconomic system and the social-political structure. In fact, along with the progress of the economic structural reform, China's social-political structure and political-administrative system have also changed. In China's social-political structure, an economic structural reform largely implies a reform of the political-administrative system for reasons already mentioned.

### III

The reform in China's economic field over the past 9 years has also drastically changed China's social-political structure and greatly stimulated the reform of its political-administrative system. The highly centralized system caused by various factors after the socialist revolution has changed, or are changing. The integration of party and government, of government and economy, and of the political and the legal system we have talked about are changing, while the party, the government, the economy, the legislation, and the society are setting up their own procedures and mechanism of activity. A proper change in the political-administrative system is a basic requirement for the change from product economy to commodity economy, and from a society of the political mobilization type to one of the economic mobilization type. A review of the reform in the political-administrative system in response to the economic structural reform in China over the past 9 years shows the steps taken as follows:

First, a great change in the rural political-administrative system. Along with the progress of the rural economic reform, the new mode of rural economic activities requires the development of a suitable political-administrative system and stimulates this development in the countryside. The changes in the rural political-administrative system are mainly shown as follows: 1) System of city leadership over counties. After the 1960's, China's countryside was under a system of separation between regions and cities, and between cities and counties. The cities engaged in industry, while the regions engaged in agriculture. This system hindered development of the rural economy, because such development did not have the support of cities and the countryside could not form direct economic links with cities. The development of rural economy demands a new set of systems, and as a result, the system of city leadership over county was introduced whereby a rational economic network supported by large cities was organized. After the reform, the system of cities being responsible for industry as well as agriculture and controlling both urban and rural areas brought about a closer relationship between the urban

and the rural economy. 2) Improvement of the county's political-administrative system. The "Constitution of 1982" stipulates that a standing committee be formed in the county people's congress, meaning that all county revolutionary committees were to be replaced by county people's governments. The delegates to the county people's congress are to be elected directly by the voters so that the political-administrative system will be better able to meet the various requirements of the rural economic development. 3) Reform of the political-administrative system at the township level. The "combination of government and commune" practiced after 1958 was changed. The development of rural economy called for a change in the practice of peoples' communes attending to both economic and political affairs and solved the problem of the substitution of party for government and of party for commune. With the development of rural economy, the separation of government and communes was widely practiced, and township governments was formed as basic-level state power. Economic development became the responsibility of some special organs. After the rural economic development, the basic-level state power must be able to satisfy the ever-growing wants of the rural population. 5) [as published] Establishment of rural basic-level mass autonomous organizations, such as the villagers' committee. These committees appeared after 1980 in the countryside as self-educating, self-managing and self serving organizations. After the system of responsibility for production was adopted, the role of production teams, mainly in charge of production, became correspondingly weakened, while the daily increasing dealings with the public at the basic levels called for stronger management. That was how villagers' committees came to be formed.

Second, great changes in the functions of political-administrative system. Along with the change from product economy to socialist commodity economy, it is only natural that the functions of political-administrative system should also change. For example, the expansion of the enterprises' decisionmaking power implies "separation" between the enterprises and the government's administrative departments and an end to the former's subordinate position. This means a change in the former political-administrative system's function of direct control over the enterprises, and in the function structure of departmental control, regional control, and differentiated control. Changes in the mode of control also require a readjustment of power relations within the political-administrative system. In other words, the readjustments of relations between centralization and decentralization of power have caused a gradual transformation of the economic structure from one of centralized power to one of decentralized power. It would be then be unthinkable for the power relations in the political-administrative system to be left unchanged. After the change required for macroeconomic control, the political-administrative system must be highly efficient and capable of making economic policy decisions and exercising economic control. All these factors call for

a readjustment of the political-administrative system functions. The main functions of this system will gradually be changed to handle the formulation of strategy, plans, general and specific policies, and programs for resource exploitation, technical transformation, and intellectual development; the coordination of development plans of different regions, departments and enterprises and the regulation of their economic relations; the collection and dissemination of economic information and the acquisition and use of the means of economic regulation; the working out of economic statutes and the supervision of their execution; and the exercise of macroeconomic control with economic, financial, monetary, and legal means. These changes have produced important and even far-reaching effects.

Third, the structure of political-administrative system has undergone considerable changes. Along with the change in the functions of this system, it is natural that its structure should also be changed. When the reform is still continuing, we cannot claim that its structure is best suited for future changes; we can only continue to readjust and improve it from time to time. The former mode of product economy required a huge political-administrative force to undertake the task of management. The changes in this economic mode created two problems: First, the development of socialist commodity economy needs a highly efficient political-administrative system with strong "political productive forces" which will be intolerable to bureaucratism, over-lapping departments, and procrastination and inefficiency in work. Second, after the formation of a new economic mechanism, a reform is needed for the former political-administrative system based on product economy. China conducted an all-out reform from 1982 to 1984 mainly for the purpose of streamlining the relations, improving and simplifying the organizations, and raising the political-administrative system's efficiency. A new structure will be formed after the reform, but the new structure will still be inadequate for the task of economic development in many ways. Therefore, continued reform will be necessary in the future. Generally, a structural reform should be based on a functional reform; otherwise, it may not produce the desired effects.

Fourth, great changes have occurred in the cadre system. The economic structural reform requires a consistent political-administrative system in terms of not only its functions and structure, but also its cadres who should be qualified to exercise these functions and to meet the specific demands of the economic structural reform. New forms of economic activities need higher standards of ideological work, administrative ability, methodology, and professional expertise. This in turn calls for reform in two other respects: first, the establishment of a rational procedure to recruit talented people of various types to strengthen the cadres ranks; and, second, the continual replenishment of manpower. In response to these calls, China's cadre system has undergone four important changes: 1) setting up a system of retirement for old cadres and abolishing the system of lifelong tenure of

office; 2) setting up a system of promotion and appointment of young cadres; 3) decentralization of the power to control cadres; and 4) experiments in different ways of promoting cadres—such as democratic evaluation, democratic recommendation, and selection of the best in public examinations, according to the special character of every trade and profession—and introduction of the mechanism of competition in recruiting enterprise personnel. Reform in the cadre system can meet many needs other than that of economic structural reform; but the economic reform in China has undoubtedly given a strong impetus on the reform of its cadre system.

Fifth, the legal system has also undergone great changes. The economic structural reform demands that the political-administrative system should control economy with indirect means and regulate economic activities with macroeconomic controls. Besides policies, an important means of regulation is law. In the past eight years, the NPC and its standing committee have enacted 60 laws and reached 58 decisions on legal questions. The State Council also enacted more than 500 administrative statutes, while the provinces, autonomous regions, and municipalities directly under the central government also enacted nearly 900 local statutes. Of the 60 laws enacted by the NPC and its standing committee, more than half are economic laws, such as statistics law, measurement law, accounting law, law on Chinese-Foreign joint ventures, law on foreign-owned enterprises, income tax law concerning Chinese-Foreign joint ventures, income tax law concerning foreign enterprises, law of economic contract with foreigners, and so forth, in addition to other laws concerning foreigners' economic activities in certain special fields and other special laws. The making of these laws have set the standard for the political-administrative system's behavior and started it on the road of legal procedures.

Sixth, the relations among the party, the government and the enterprises have also undergone great changes. The economic structural reform demands that the administrative departments no longer control the enterprises or other economic units directly. In fact, it also demands the separation of party and government. According to the former political-administrative system, the party had a direct control over everything. Economic development calls for corresponding reform in the political-administrative system and changes in the style of the ruling party's leadership so that they will not directly control social economic activities. These changes should first take place in enterprises. If an enterprise wants to take advantage of the greater decisionmaking power it has obtained, it must let its factory director assume full responsibility for its operation so that he could direct the enterprise's production according to the laws of production and value. With the factory director in full charge of the enterprise, the function of the party organization in the enterprise will be one of regulation. The party committees of enterprises will be political organizations and no longer in direct charge of the enterprise. By the end of June 1987, 35,233 state-owned enterprises, 63.9

percent of the total number, had adopted this system. Recently, the State Economic Commission, the Organization Department of the Central Committee, and the All-China Federation of Trade Unions proposed that all large and medium-size industrial enterprises should adopt the system of factory directors assuming full responsibility within this year and that all state-owned industrial enterprises should complete the job of setting up this system before the end of 1988. The function of the party organizations in these enterprises will mostly be that of supervision and ensuring that jobs are properly done.

Of course, what we have mentioned are the important aspects of the reform of China's political-administrative system in the past 9 years and the aspects closely related to the economic structural reform. The achievements of the reform, however, were not limited to these aspects. There are generally two motive forces for the reform of China's political system: first, the requirements of economic structural reform; and second, the long, abnormal political life and particularly the lessons of the "cultural revolution." Under the impact of the latter, China has carried out a series of reforms, such as the reactivation of the Secretariat of the Central Committee as the organ in charge of daily work under the leadership of the Political Bureau and its Standing Committee; the establishment of the advisory commission and the discipline inspection commission; replacement of the system of chairman by that of general secretary; establishment of the Central Military Commission within the state apparatus; the regulations that all political parties must observe the law and the constitution, and that the Premier will be responsible for the State Council with the assistance of ministers of all ministries and ministers in charge of all commissions; and the establishment of Ministry of Supervision. This analysis of China's political structure reform over the past 9 years is presented from an economic point of view. That is why we have particularly stressed these six steps.

#### IV

China's new political-administrative system after 9 years of reform is now taking shape. However, this is going to be a long process, and even now, we cannot say that this system has approached perfection. A perfect political-administrative system should have these two features: first, strong political productive forces; and second, a high degree of democracy. These two features cannot be attained in 1 day.

The concept of socialism in its primary stage demands a consideration of the under-developed productive forces in studying China's economic and political developments. If the productive forces are under-developed, the relations of production will be weak, and the superstructure will be immature. What we see can only be the coexistence of socialized mass production and the traditional small-scale production and the coexistence of commodity economy and natural economy. Because of

the uneven economic development, there is also the coexistence of fairly well developed regions and very under-developed regions; the coexistence of sophisticated science and technology and illiteracy and semi-illiteracy; the coexistence of people being fairly well-off and people living in poverty; the coexistence of state-owned economy and nonstate-owned economy; and so forth. These economic conditions will continue to exist in China's political-administrative system for a long time to come. They can be changed only when productive forces have been developed. This change will be advantageous to the formation of a new economic system, which, in turn, will become an important condition for the formation of a new political-administrative system. When productive forces have been developed, a new economic system will be gradually formed, and then democracy can be built on a really solid foundation.

Democracy building is an urgent task at the present stage. Building a high degree of democracy, however, is a distant goal because of our national conditions. At the same time, raising efficiency is inseparable from realities, because the central task is to promote the development of productive forces. On this point, Deng Xiaoping has said: "We keenly feel the need for political structural reform at every step we take in economic structural reform. Without a political structural reform, the development of productive forces would be handicapped. Therefore, without reforming the political structure, we cannot safeguard the achievements of the economic structural reform, or enable the economic structural reform to continue its advance."<sup>7</sup> Economic structural reform is a necessity for economic development, for raising people's living standards, and for national progress. Because of this necessity, people must make persistent efforts to reform the political-administrative system's inconsistent components. This is also a necessity for the economic structural reform. Today, the way to form an ideal political-administrative system in China is to take the development of productive forces as the central task.

China's economic structural reform has achieved astounding success and is continuing to deepen, while new measures and plans for this reform are emerging in an endless stream. The steps to be taken in the reform have also raised new demands on the political-administrative system. For example, the development of lateral economic associations in regions requires a suitable political-administrative system. At present, there are 104 regional economic associations including inter-provincial associations, provincial associations with adjoining regions, and associations within a province. They will require some changes in the political-administrative system. Again, the large and medium-size state-owned enterprises are now planning to adopt different forms of contracted managerial responsibility system while small enterprises may be contracted or leased out for greater vitality. These systems will also require certain reforms in the leadership system. When enterprises are contracted out, it will be necessary to introduce the mechanism of competition. For example, public bidding

should be held on a national scale for the selection of entrepreneurs. This reform will lead to fundamental changes in the cadre system. All similar economic reforms require corresponding reforms in the political-administrative system. As we can see from the economic reforms already completed and from their orientation, the reforms deserving priority in the political-administrative system are as follows:

First, separation of party and government. The separation of party and government within enterprises has become one of the requisites for intensifying the economic structural reform. In an enterprise, the manager should organize its production according to the laws of production and value, and the party organizations should not exercise state power on behalf of some state organ, or take over the manager's leadership over production and business operations. In an enterprise, the party organization can only organize the party members for implementing party line and policies and, as a supervisory organ, to ensure the proper implementation of party policies. Thus the enterprise will become a truly independent unit with greater vitality. In other basic-level units, similarly, the party organizations as well as the political-administrative system should not set up any vertical chain of command which would hinder the basic unit's unified command. However, separation of party and government in enterprises and basic-level units would involve the party organizations at higher levels. Therefore, we should change the system of party organizations and replace the vertical command with a horizontal command, to be in line with the principle of local administration. This reform, though necessary for the economic reform, will have to take a long time. Along with the change in the system of party organization at the district level, corresponding changes should also take place at the higher levels. Of course, in the course of this reform, we should discover some way which will meet the requirements of economic and social developments and yet avoid the creation of any political instability, and some new system of effective party leadership.

Second, reforming the administrative structure. Before the reform, according to our analysis, the characteristics of product economy led to the continual expansion of the administrative structure, because it required a department to be in charge of every field of activity. Thus the more developed the economy, the greater will be the number of departments in charge, resulting in over-size organs, over-staffing, and bureaucratism. The economic structural reform and the socialist commodity economy with its market system have provided favorable conditions for a gradual reform of this structure. In reforming the administrative structure, we must reduce the unnecessary administrative organs, raise administrative efficiency, and at the same time strengthen the departments in charge of planning, finance, taxation, banking, commodity prices, labor, auditing, statistics, and industry and commerce administration in order to meet the government's requirements for macroeconomic control.

Functional changes are the foundation of structural reform. Without functional changes, the structural reform cannot yield the desired result.

Third, reforming the personnel system of cadres. The progress of economic structural reform requires a reform in the personnel system in two respects: First, the personnel system inside enterprises. The personnel system inside enterprises is related to the labor personnel system of the state. If an enterprise wants to be full of vitality, it must have personnel mobility. It must be able to get rid of the unnecessary personnel and to employ the talented people it requires. However, the labor personnel system in the past was set up exclusively by a state administrative department. A reform of the personnel system inside enterprises will certainly involve the labor personnel system of the entire state and need a nationwide reform to provide the necessary safeguard. Second, a reform of the cadre system outside the enterprises. For example, the personnel of the departments within political-administrative system must possess the necessary knowledge, qualifications, and techniques for macroeconomic management in order to meet the requirements of the economic structural reform. To attract as many qualified personnel as possible, the political-administrative system should recruit cadres and government servants openly and through examinations. A new personnel system for government servants and other related systems should also be introduced so that the efficiency political-administrative system could be raised with the help of its efficient personnel.

Fourth, setting up a social information network. In economic structural reform, the increasing importance of a social information network is shown in the following three respects: 1) Economic development may lead to the appearance of different interest groups. The more economically developed, the wider will be the sphere of human activities which will become more diversified. For the same reason, people's increasing interests will also become more diversified. It is therefore necessary for the political-administrative system to be good at pooling people's opinions, and in handling different demands and views. 2) The development of socialist commodity economy has "separated" the enterprises and economic units from the administrative departments. Thus the channels of information transmission should also be changed. Formerly, many social members could transmit their information to the departments concerned only through their enterprises; now, there should be new channels and a new network. Besides the economic units, people also want to know about the separation of party and government, the simplification of administration and decentralization of power, and the development of democracy at the basic levels. They will find a social information network indispensable. This network in the political-administrative system, can be used to handle the conflicts of social interests and to facilitate social consultation and social dialogue so that what is going on at higher levels can be promptly and

accurately made known to lower levels and vice versa without impediment, thus enabling people at all levels to understand one another.

Fifth, setting up a democratic system at the basic levels. Democracy building is a complex and arduous task, especially in China. Democracy touches on a wide range of issues. According to the characteristics of a socialist system, democracy building is indispensable in an economic system and in economic activities. One important feature of democracy is the people's rights to truly manage enterprises and agencies. This feature should be stressed in an analysis from the economic point of view. When the enterprise has acquired greater decisionmaking power and the factory director has assumed full responsibility for its operation, the question of management by the workers and staff members will become prominent. How will the workers and staff members effectively manage the enterprise? What role do the workers' congress and the trade union play? A sound democratic system at the basic levels will help arouse people's enthusiasm at the basic levels. Right now, conditions are fairly ripe in this respect, and we can really do something about it. If the democratic system is sound at the basic levels, democracy for the whole society will have a solid foundation.

Reforms over the past 9 years have brought great changes in the Chinese society, including the changes from political mobilization to economic mobilization, and from product economy to commodity economy. Economic reforms have changed the social-political structure and the political-administrative system in post-revolution China. Reforms over the past 9 years have created new historical-social-cultural conditions. Under these conditions and in this environment, a new political-administrative system will mature.

#### Footnotes

1. Li Xiazhong [2621 7209 0022], "Study in Planned Economy," People's Publishing House, Beijing, 1982, p 20.
2. Wang Zhuo [3769 3820], "Study in Chinese-Style Economic System," People's Publishing House, Beijing, 1982, p 15.
3. Xu Muqiao [5641 2550 0294], "China's National Economic Readjustment and Reform," People's Publishing House, Beijing, 1982, p 15.
4. Chen Yizi, "Reform of Political Structure as Guarantee for Economic Structural Reform," SHIJIE JINGJI DAobao [WORLD ECONOMIC REPORT] 13 July 1987.
5. Xue Muqiao, Ibid, p 20.



6. Jin Shuwang, "Reform in State Council Work Departments and Several Problems To Be Studied," See "Preliminary Explorations in Study of Chinese Administrative Management," by Investigation and Study Office of State Council Staff Office, Economic Science Publishing House, Beijing, 1984, pp 45-54.

7. Deng Xiaoping, "Build Socialism with Chinese Characteristics," People's Publishing House, Beijing, 1987, p 13.

9411

### **Ideology Impedes Further Opening of Liaodong Peninsula**

40050421 Shenyang LILUN YU SHIJIAN in Chinese  
No 6, 6 Jun 88 pp 34-35

[Article by Li Ronghuai 2621 2837 2849: "If Leaders are to Lead Opening up, Their Thoughts Must be Liberated First"]

[Text] After the State Council approved the policy of opening up the Liaodong Peninsula, party committees and governments of all levels treated matters of formulating a strategy for the economic development of the coastal regions as very urgent and people of these regions looked forward to a general renewal. There were attempts at liberating thinking, formulating policies and measures to encourage opening up, adjusting and perfecting plans and goals of constructing an foreign-oriented economy. Reforms of the foreign trade system got started. These attempts are undoubtedly correct moves.

Judging from the practices of the initial period, however, the key problem affecting the opening up of Liaodong Peninsula remains one of ideology. Many comrades, including some leaders of relatively high rank, were not sufficiently prepared in their minds for opening up Liaodong Peninsula. They still used traditional ways to handle problems or to work. Further liberating the thinking of the leaders and further strengthening their understanding of the policy of opening up are, therefore, still the most important problem among all the jobs at hand that are related to opening up.

First, the old way of thinking must be given up to establish a concept of pursuing all matters from actuality. It must be confirmed that after studying the documents of the 13th Party Congress, discussing productivity standards, and analyzing the conditions of the province, the minds of all have been greatly liberated; to a certain degree, a mental foundation was formed to welcome opening up of Liaodong Peninsula. But, we must also admit that the way of thinking of "obeying the written regulations and obeying the supervisors" under the old conditions of a commodity economy had been in practice for a long, long time. In some places, units, or departments, there has been no basic change. In cases of decision making and work guidance, there remains the

mental habit of "depending upon the supervisors, waiting for a good opportunity, and watching which way the wind is blowing." Policies are taken in the literal sense and every microscopic caution is employed in their execution.

When a matter is pending, the leaders do not consider whether the policy conforms with reality; they consider whether the reality conforms with the policy. They look to see if the family name is "Capitalism" or "Socialism." They only know they must be responsible to the documents coming down from the supervisors; they do not know they should be responsible to the people and to the actual facts. To all those systems that are not suitable for the development of a commodity economy, they "dare not step out of line" in their policy regulations. Thus, they tie up their own hands and feet. They are often a step behind the advanced coastal regions, or half a beat slower. Some one compared this with the advanced coastal regions saying: "Others encounter a red light and circle around it; we make a quick turn backwards when we come to a red light. Others walk fast when there is a green light; we walk slowly when there is a green light. Having no lamp, others make a dash; we would not dare to walk without a lamp." This is the type of way of thinking that puts head and feet upside down." It not only affects the development of the merchandise economy, but also forms a handicap to the opening up process.

Dialectic materialism tells us that the standard for inspecting truth is social practice. Whether a policy is correct or not can only be judged by the objective measure of testing whether it is beneficial for the development of productivity. Therefore, we must give up the old way of thinking and insist upon using productivity as the standard. We respect practice and the creative spirit of the masses and will use those as the basic guiding ideas to formulate and execute policies. We must start from reality when we deal with the policy of opening up granted us by CPC and the State Council. We must make full use of that policy, use it well, and use it actively. We must dare to proceed with ingenious adaptation when a concrete policy does not conform with reality. Of course, attention must also be given to major goals of the supervising agencies, and the relationship between a policy and its lively adaptation. We should not use "adaptation as an excuse" to thwart the goal and policy of overall importance issued by the higher ranking agency.

Second, The narrow-minded thinking of "being firmly entrenched in the old homestead" must be gotten rid of, so as to become skillful in developing foreign economic relationships according to international traditions. We all know our country's economic construction has been carried out for a long time in isolation, and it proceeded under the direction of the "leftist" ideology. Thus, not only many things that are not suitable for the international traditions were formed, there was also a lack of

understanding of situations and living habits of foreign countries, and the work of opening up to the outside was thus adversely influenced.

The practices of some regions that has been opened first prove that we now have two urgent problems to resolve. First we must resolve the problem of not daring to do business according to international traditions and precedents. For example, it has been said that in foreign countries, business discussions with foreign businessmen are sometimes conducted in casinos, bars, and nightclubs. If one does not dare to set foot in these places, business, of course, cannot proceed. According to our traditional living habits, we not only must not enter these places, we would "change our facial expression" when these places are mentioned to us. We would rather not do any business than chance getting into trouble.

I feel if we measure with the standard of the development of productivity we must change this traditional idea as well. We cannot "refuse to eat for fear of choking," and "lose big over a little thing." If we set our minds and styles straight and really conduct business, the rule of making casinos, bars, and nightclubs off limits can also be broken. As the ancients say, "without entering the tiger's den, there is no way to capture the tiger's cub."

Only by doing away with the old idea of entrenchment in the old homestead and establishing new ideas suitable to the needs of opening up according to international traditions, can we continue to make progress in developing an foreign-oriented economy. Then, we must also be skillful at handling business according to international traditions. Under the current condition of intense competition in the world market, there is no vacant spot in the market. Whoever wishes to squeeze into the market and maintain a place in it must have a superior sales strategy and technique and must create a good environment according to international traditions. For example, last March, the municipal government of Dalian invited foreign merchants and foreign business delegations to a meeting. Many who came to the meeting criticized the flight suspension policy of civilian airlines during the spring holidays. They say that while you Chinese all rest for Spring Festival, we have to work as usual.

There were also 50 letters from foreign businessmen that were written in English. Due to the fact that the Post Office of Dalian translated only the name of the city where the letters were to go while the postal regulation required full Chinese translation of envelopes of all domestic mail, all these letters were returned to the senders who were very unhappy about the whole thing.

Initial experience has shown that handling international contacts and entering the international division of labor system to bring about increases in values and savings in social labor require knowledge, experience, and skill of many aspects and the related departments are in need of

close coordination and energetic cooperation. While we pay attention to resolving the problem of whether we dare to handle business according to international traditions, we must also seriously learn to master the habits of international contact and become familiar with the method of using foreign capital, introducing foreign technology, exporting labor, merchandise trade, soft environmental construction, and such basic items of knowledge.

Third, we must get rid of emotional blindness and be mentally prepared to overcome hardships. Before the State Council approved the opening of Liaodong Peninsula, our leaders stretched their necks waiting very anxiously. After the approval, due to insufficient mental preparation, some felt like "a tiger about to swallow the sky, but not knowing how to get the mouth onto it." Some even turned suddenly from anticipation to fear; they could not work and they could not take a first step. There were also those at the other extreme. They thought of opening up as a simple matter and were optimistic about participating in international division of labor and international market competition.

As a matter of fact, both attitudes are wrong. There are advantages in opening up Liaodong Peninsula and there are difficulties. We must have confidence and we must be prepared to work very hard.

We should realize that in mineral resources and technological capability Liaodong Province compares favorably with the "4 little dragons" in the 1960's when they started to launch their externally oriented economy. Our conditions are also much better than the provinces of the Southeastern coast of China. They are flying now. Why cannot we get off the ground?

The urgent matter at hand, therefore, is not sitting there discussing and worrying about difficulties, it is to adopt all measures to achieve a breakthrough as quickly as possible. We should quickly open up a new phase so that we can use our own experience to firm up our confidence in developing an externally oriented economy. Meanwhile, we should also fully assess the necessary difficulties in every link of the practice of participating in the great circulation of international trade. We must be aware that the product structure of our province remains a great distance from the requirements of the international marketplace and it will be difficult to form an industrial structure directed toward export products. While there are still domestic markets, some enterprises may be less interested in taking the risk of developing export oriented products of much higher cost. There is one additional process from completing the mental preparation to actually working to meet the requirements of constructing a truly suitable externally oriented economy.

If there is insufficient mental preparation for these difficulties, after being enthusiastic for awhile, we will soon cool off and lose interest again. We must have a

cool and calm head. We are not in a hurry to succeed and we are not eager for speed. We want to advance forward steadily step by step.

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**Problems in Party's Workstyle Enumerated**  
40050429 Nanjing QUNZHONG [THE MASSES] in  
Chinese No 6, 5 Jun 88 pp 7-8

[Article by Si Jinquan 0674 6930 3123: "A Brief Record of the Party's Workstyle Problem"]

[Text] The quality of party workstyle affects the will of the people and the success of the cause. The party's workstyle problem has remained a "forever" fashionable one and many people have complained and worried about it for many years.

**I. Since Party Workstyle Has Been Constantly Stressed for Many Years, Why Are the Masses Still Full of Complaints About it?**

It is undeniable that since the 3d Plenum of the 11th CPC Central Committee, our party has certainly decided to rectify party workstyle and has achieved a considerable amount of success. The problem is that some leading comrades say repeatedly that the problem still exists but that the successes are the major thing. However, the masses generally feel that the problem is certainly not a minor one.

1. In the past few years, party workstyle has been stressed considerably and quite a lot of success has been achieved throughout the party, but unhealthy tendencies are still cropping up one after another. Not only have corrupt activities, such as seeking private gain through public authority, bureaucracy, graft and embezzlement, extortion, giving and taking of bribes, and illegal law enforcement, not decreased, but they have grown in intensity instead and are becoming much harder to control.

2. In the war years, relations between the party and the masses were very close. Party members risked their lives to carry out the revolution and the masses willingly died to shield party members. But now, some party cadres use their power not for the welfare of the masses, but for their own private interests instead. The masses gnash their teeth over this and some even ask indignantly if this communist party is the same one as before.

3. In the early 1950's, cadres were executed for embezzling 10,000 yuan but now, embezzling or taking bribes of more than 10,000 yuan is not uncommon. Policies on "strictly attacking" and stopping "evil tendencies" and complaining about evil trends all become more lenient after a while. In particular, evil deeds and scandals committed by leading cadres or their families are often kept quiet. When they are discovered, there is great

resistance to punishing them and it is not clear what finally happens. Some leading organs and discipline inspection departments also close their eyes to wrongdoing and even serve as umbrellas to conceal violations of law and discipline. Not only are those who speak out from a sense of justice and act impartially not supported, but they are isolated and attacked instead. As a result, good people suffer, bad ones are cocky, and the evil trends are encouraged.

4. Bureaucracy has become a label for being very pliable and easily influenced and a "protective shield." Many people are free from party discipline and national law under the cover of this label. Some who cannot get along in one place move to another, remain officials, and even win promotion by moving.

5. In the past, communist party cadres identified themselves with the masses but now, not only do quite a few high-level leading cadres have various "layers of isolation" from the masses, but many basic-level ones are also out of tune with them. Some people enjoy high position, live in ease and comfort, are out-and-out officials, and are used to sitting in organizational meetings and listening to good news but do not want to go among the masses and hear bad news.

Why is there such a great contrast between the views of leading party comrades and the masses on party workstyle? The main trends and the successes may shake our determination and confidence to criticize, but the problem that the masses are talking about is absolutely not simply an isolated phenomenon. The problem of party workstyle has certainly reached the point where we are anxious about it. What makes us particularly anxious is that some of our leading comrades are far from having come to an understanding of the problem. It is hard to imagine that they could turn a deaf ear and remain indifferent to the masses' complaints and ignore and remain apathetic to the many corrupt activities within the party. If they do, the consequences may be inconceivable.

**II. Can the Economy Be Invigorated and Strict Party Discipline Be Enforced at the Same Time?**

A factory director from a certain township enterprise asked me if calling for economic invigoration along with a correct party workstyle is not like asking a horse to run without eating hay. I think that economic invigoration should be put first regardless of party workstyle. Some people say that there could be no township enterprises without unhealthy tendencies. This may not be easy to listen to, but it is certainly true and, in fact, is compelling. From the perspective of party workstyle, some things cannot be done but, from that of factory directors, it is best to resist firmly and "burn incense" everywhere in order to fulfill the instructions given and fill hundreds of mouths with food.

A discipline inspection cadre told me that if opening and invigoration are continued, a correct party workstyle will be idle talk. If a mayor giving a public speech at a meeting has eaten until his face is red, it will be hot from having drawn extra dividends. It is unclear how to set the limits between normal courtesy or giving dinners and sending gifts to curry favor, legal or illegal income, flexibility or policy violations, and work mistakes or dereliction of duty. Actually, someone has a countermeasure for every policy. If "soup and four other courses" is stipulated, someone will bring a "huge dish of hors d'oeuvres and refill it when empty"; if reckless issuing of bonuses is prohibited, someone will give out material objects under all sorts of pretexts; if the use of public funds for tourism is prohibited, someone will call it the fine-sounding names of "learning from others' experience" or "lateral contacts." The 13th CPC Congress directed that strict party discipline be enforced and everyone has called for it. If the strictness is just words, is this not idle talk?

Again, a basic-level party committee secretary sincerely told me that there are things that are favorable to rectifying party workstyle but unfavorable to developing the productive forces and vice versa. Things being "rational but illegal or legal but irrational" can be found everywhere. Trying to figure out what criteria to use to judge things with has turned my brain into a pot of paste. In opening and invigoration, what degree of "invigoration" is meant? Can conscience be forgotten and principles and character be exchanged for commodities as long as money can be made? In strict enforcement of party discipline, what degree of "strictness" is meant? Can party workstyle in the 1980's only remain the same as that in the war years and the 1950's without any "breakthroughs?" I think that what is important is to find a way to integrate "invigoration" and "strictness" and balance them appropriately.

It can be seen that integrating economic invigoration and strict enforcement of party discipline is certainly a complex issue. Theoretically, they are both needed to realize the party's overall mission in the present stage. Economic invigoration calls for reform of the economic and political systems while reform and opening create the basic conditions to rectify party workstyle. Building a good party workstyle suited to opening and invigoration not only can keep reform, opening, and invigoration from going astray, but also can remove obstacles to their success. In our actual work, we must have a "limit" to "invigoration" and a "guide" for "strictness." We can neither unrealistically require party workstyle to "become purer and purer" while rejecting various appropriate ways to invigorate the economy, or regard corruption in party workstyle as the cost of economic "prosperity."

### III. The Key to Rectifying Party Workstyle Is for Leading Organs and Leading Cadres To Dare To Set Examples

As the saying goes, "When those above behave unworthily, those below will do the same." The key to whether party workstyle can be corrected is whether leading organs and leading cadres can set examples.

Those who set examples "discipline themselves first and then others." In rectifying party workstyle, each party member should certainly have the consciousness of "starting with myself." But in fact, certain leading organs and leading cadres now take the lead in stirring up many serious unhealthy tendencies. How can those who crave ostentation and extravagance, parade their wealth, and seek private gain from public authority require their subordinates to be honest in performing their official duties? How can those who bend the law for the benefit of relatives or friends, neglect their duties, and desert their posts under the label of "bureaucracy" deal with violations of law and discipline by their subordinates? Thus, strict enforcement of party discipline must start at the top. When people are led correctly, who dares to go astray?

Setting examples means that party organizations and discipline inspection departments at all levels must use a 100-percent party spirit to conscientiously achieve equality among all in party discipline and national law. It is not permitted to substitute authority for law, be lenient with leaders and strict with subordinates, or pay the high cost of damaging party prestige to protect "special party members" who refuse to accept the restraints of party discipline or even place themselves above the party. If matters are handled in this way, what worries will there be that party workstyle cannot be rectified?

Setting examples means conscientiously reforming certain systems, the leadership, personnel, election, and supervisory systems in particular, and fully developing the role of media supervision. In this way, our party will be more imbued with vigor and hope.

Late in the Qing Dynasty, the imperial court banned opium-smoking and the opium trade. Everyone said that smoking opium was bad and called for it to be banned, but this proved to be impossible. The problem was that many people loudly called for opium-smoking to be banned on one hand while smoking it on the other. A retired cadre who was a party member for over 40 years stated his concern that some people are playing this same game in our current campaign to rectify party workstyle. This criticism may be a little too sharp, but good medicine tastes bitter and it gives us much food for thought.

## NATIONAL AFFAIRS, POLICY

**Overall Plan for Economic Structural Reform**  
*40060002 Beijing CAIMAO JINGJI [FINANCE AND  
TRADE ECONOMICS] in Chinese*  
No 7, 12 Jul 88 pp 3-10

[Article by Li Yining 0632 0110 1380, Beijing University: "The Overall Scheme of the Restructuring of the Economic System—Turning Economic Reform Concepts Into Policies"]

[Text] The basic economic structural reform idea is only a concept which points the right direction for the restructuring of the economic system. It is highly theoretical and exploratory. To a large extent, it only sets the norm. That is, from this basic idea, we can see more clearly the direction and the prospects of the structural reform of the economic system and understand "what we should do and why we should do it." There is, however, a huge gap between theoretical and hypothetical ideas and the actual task of restructuring the economic system. Economic reform concepts must become more policy-oriented, and they should be incorporated into economic structural reform policies. A policy scheme for the restructuring of the economic system is essential because hypothetical studies must be integrated with empirical studies. In other words, by making reform ideas policy-oriented, we can further understand "how to do what we should do, how to do it better, and how to turn something theoretical into something practical."

The restructuring of the economic system takes more than one or two policy measures. It involves a series of policies, and they have to form a complete system. Within this system, some policies are major, others are minor. Some are pivotal, others are not. All measures must be coordinated to support one another. Furthermore, the restructuring of the economic system must proceed in stages, and each stage has its own central tasks. Therefore we should tailor the policies to fit the tasks at each stage and adjust the relationships between the different policies to emphasize one set of policies at one stage and other sets at other stages. These steps are necessary for meeting the requirements of the basic economic structural reform concepts.

Economic reform policies not only must have a theoretical basis, they must also be practicable. That is, they should be easy to handle and implement. If they lack a theoretical basis, they cannot stand up to tests, and they cannot last. If they are difficult to handle, they cannot be implemented, and eventually they will be replaced by more practical measures. Thus, designing policies for the restructuring of the economic system may be much more difficult than advancing basic reform concepts. Basic economic reform ideas are advanced mainly from the point of view of economists, but the design of policies is primarily from the perspective of those who have to deal with economic realities.

This article attempts to expound the overall policy scheme for the restructuring of the economic system. It is divided into four parts: guiding ideology for the overall design of economic policy, designating the near- and mid-term stages and their respective central tasks, policy structure, and policy gradient and uneven preferences.

### I. Guiding Ideology for the Overall Design of Economic Policy

Economic policy here refers to the set of policies we should enact and implement during the restructuring of the economic system. Its overall design must be based on China's present economic conditions.

Today, China's market has not been perfected. Commodity price relations are flawed, and enterprises have no independent economic status. These are realities. In the circumstances, putting our hopes on the decisive effects of price reform and believing that the economic cycle will turn benign as soon as price relations are straightened out is unrealistic. As a market signal, prices have only limited effect. For example, do all enterprises receive accurate price signals, and do they adjust their production and business activities according to price signals? We cannot be certain of the answers as long as the market is flawed and as long as enterprises are not independent economic entities. We can even say with certainty that, even with a reformed and improved pricing system, as long as enterprises are languid, we will not be able to achieve the intended goal of economic reform, which is to achieve proper allocation of resources and promote economic development.

Faced with the problems of an imperfect market, irrational price relations, and enterprises' lack of independent economic status, what economic measures should we adopt, and which problem should we deal with first so that the remaining problems can also be resolved with relative ease? According to concepts of economic reform, the overall scheme of economic policy must focus on, and give priority to, measures which promote enterprise structural reform. If enterprises have the right to make decisions, are responsible for their profits and losses, and have independent economic status, they become bona fide independent commodity producers, and then the market can gradually be perfected. In the process of perfecting the market, we can also adopt appropriate price reform measures according to specific needs, and we can rectify irrational commodity price parities. Therefore, we should promulgate and implement the kind of economic reform policy which invigorates enterprises, facilitates the creation of a market with many energetic enterprises (including the individual producers and the peasant households) and improves the market so that it can take over the task of determining prices. Only this kind of economic policy is appropriate for China at this stage.

In designing the economic structural reform policy, we must clarify one point, which is, if we have decided that enterprise structural reform should be the core of economic reform, that the progress of enterprise structural reform should determine the course of market perfection and the improvement of price relations, and that the economic policies which promote enterprise structural reform should have top priority in the policy system, then we must further determine what should be the focus of enterprise structural reform. What kind of economic policy should play the dominant role in promoting enterprise structural reform, and what would be subordinate and supplementary measures? And what are the theoretical bases for their principal and subordinate relationship?

As we know, there is a close link between economic development and resource allocation. Resource allocation consists of two levels: the lower level refers to the proper allocation of resources among individual producing units so that the key productive elements will be used effectively by the individual productive units, and the higher level refers to the proper allocation of resources in society so that the key productive elements are put to effective use in society. Accordingly, enterprise structural reform should also be implemented at two levels. At the lower level, enterprise structural reform should focus on perfecting the operating mechanisms of the individual enterprises to ensure the efficient use of the resources. At the higher level, enterprise structural reform should focus on the delineation of property rights, on increasing the mobility of the key productive elements in society and on the realignment of resources for better distribution among different uses. In comparison, it is obvious that the higher level of enterprise structural reform and resource allocation is much more important than the lower level.

To solve the problem of resource allocation at the lower level, we can rely primarily on the contract responsibility system. The implementation of that system can increase output, enterprise income, and state revenues. These are, no doubt, benefits of the contract responsibility system. It is a feasible system. Of course, the contract responsibility system is not ideal; it has obvious defects. On the whole, the contract system can lead to enterprise short-term behavior; it leads to tense internal relations in enterprises over income distribution, or it may cause the contractors to overemphasize their own interests and neglect the welfare of society. No doubt, these are the flaws of the contract responsibility system, but these defects can be overcome or mitigated by continuous efforts to perfect the system itself. In the policy scheme, we can draft several measures which can overcome or mitigate the aforementioned flaws of the contract system and improve the system, but we must not overlook one fatal defect of the contract responsibility system which cannot be eliminated by perfecting the system itself, and that is, the contract responsibility system is not the solution to the resource allocation problem at the higher level. The system has nothing to do with the delineation

and adjustment of property rights, and in some respects, the system limits the mobility of the key productive elements in society. It makes permanent some things which should be temporary, and it reinforces what should be weakened. The higher level enterprises structural reform, in a certain sense, aims to remedy this fatal defect of the contract responsibility system.

The key measures at the higher level enterprise structural reform are those for the delineation of property rights. Only by clarifying the property right relationships can enterprises become bona fide commodity producers with independent economic status, and only then can government and enterprises be truly separated to allow enterprises to make their own business decisions, to take care of their own profits and losses, and to be responsible for their own behavior and their own development. Moreover, enterprises which depend entirely on the contract responsibility system do not really form a market. Therefore, in the economic reform policy scheme, given the premise that enterprise structural reform is the core of reform efforts and that the policies which promote enterprise reform are crucial to the policy system, we must give priority to the policy of delineating property rights among the other enterprise reform policies. In this way, the whole economic reform can proceed much more smoothly.

How do we delineate property rights? With respect to the small state-run enterprises, property transfer with compensation is one way. Auctioning off these enterprises to the highest bidders can solve the problem of enterprise management and the property rights issue in one stroke. If the small state-run enterprises are losing money in the first place, it will be an opportunity to get rid of the burden, and the state can recover its investments and spend the money on developing the economy. The implementation of the leasing system among the small state-run enterprises, although not as effective as the system of property transfer with compensation, is nevertheless also feasible. As for the large and mid-sized state-run enterprises and as far as the delineation of property rights is concerned, the stock ownership system so far is the best solution we know. The stock ownership system is the foundation of the development of enterprise groups and is one of the effective ways to help enterprises merge. Promoting the development of enterprise groups and mergers can lead to better circulation of resources and facilitate the realignment and optimal allocation of key productive resources. In promulgating policies, we must consider the opportune time and the proper procedure for introducing the various measures which promote the stock ownership system, establish enterprise groups, and facilitate enterprise mergers.

## **II. Designating the Mid- and Near-Term Stages and Their Respective Central Tasks**

There are about 8 years between now and the the end of 1995. Let us divide these 8 years into 3 stages. The first stage lasts about 3 years (1988-1990); the second stage

lasts 2 years (1991-1992), and the third stage lasts 3 years (1993-1995). According to the guiding ideology discussed above, thorough enterprise structural reform is the core issue, and in turn, the delineation of property rights is the heart of enterprise structural reform. Thus, we can designate the following central tasks for each stage: the first stage—develop and perfect the contract responsibility system and experiment with the stock ownership system in selective areas. The second stage—delineate property rights and separate the state's proprietary functions from its economic management functions, and proceed to make the transition from the contract responsibility system to the stock ownership system. The third stage—shape enterprises into companies, that is, popularize the stock ownership system and make joint stock company the principal form of business organization among the large and mid-sized enterprises.

All other economic reform measures should wrap around the central tasks of enterprise structural reform; they must obey and serve the enterprise structural reform. On the whole, during these three stages of economic structural reform, we should take steps similar to the following:

#### A. The First Stage (1988-1990)

During the first stage, because the main task is to develop and perfect the contract responsibility system, we should adopt measures to maintain basic price stability so that enterprises which have entered into contracts can be sure that prices will remain stable and concentrate on improving their economic performance, increasing production, and increasing income. This prevents the kind of distorted enterprise behavior due to anticipation of substantial price or cost increases. Furthermore, excess price fluctuation at this stage will increase the people's financial burden and reduce their ability to withstand the pressure of higher prices and dampen their enthusiasm for reform, and as a result, reform inevitably will run into greater social resistance. This will damage future reform efforts.

How do we maintain basic price stability? From the standpoint of financial structural reform, at this stage, some form of financial responsibility contracts can be implemented. Neither the incremental nor the fixed quota contract is an ideal financial system, but both are practicable, because at this stage, as long as we can increase government revenue and control expenditure, we will have satisfied our goal.

From the standpoint of price reform, obviously this is not the proper time for implementing radical price reform, because price reform, in its true sense, means decontrolling prices and letting the market set prices while limiting the government's role to indirect regulation and adjustment. We should not equate the adjustment of price parities with price reform in its true sense, otherwise it can be said that we have been implementing price reform all along, which, of course, is not true.

Because we must maintain price stability at this stage, in addition to curbing demand, it is even more important that we increase supply. Prices which are seriously out of line pose an obstacle to efforts to increase supply. Therefore, during the first stage, concurrent with stabilizing prices, we must revise some prices which are seriously out of line. For example, we should revise the prices of some agricultural products. We should not pin all our hopes on the outcome of partial price adjustments, because despite these revisions, some prices will remain out of line. Even after the revisions, it is inevitable that there will be a "relapse of price parities." (That is, after a while, prices will resume their previous irrational relations.) At least for a duration, however, partial adjustments can make the prices of some products more reasonable.

At this stage, we cannot eliminate government price subsidies yet. Open subsidies, though by no means ideal, are preferable to hidden subsidies. In short, as explained earlier in the section on the guiding ideology for the overall design of policy for the economic structural reform process, in order to facilitate the smooth implementation of enterprise structural reform, financial and price reforms must submit to and serve enterprise structural reform. As long as the implementation of the contract responsibility system can proceed smoothly, and once enterprises improve their economic performance, we will have secured the proper conditions for future reforms.

#### B. The Second Stage (1991-1992)

The main task in the second stage is to delineate property rights. At this time, on the one hand, we must separate the state's proprietary functions from its economic management functions, and we must set up management organs everywhere to manage the state-owned assets and let these organs take over the function of preserving and managing the state-owned assets, but delegate the functions of managing and regulating the economy and adjusting the supply and demand relationships in society to the comprehensive economic management departments. On the other hand, we should proceed to upgrade the contract responsibility system into a stock ownership system and make the latter standard among enterprises which have well-defined property rights. Thus, in the overall design of all other economic measures surrounding the central tasks at this stage, and as enterprises gain vitality and ability to withstand greater pressure, it will be necessary to implement comprehensive revision of the commodity price parities, including the price parities between industrial and agricultural products, and between raw materials and processed goods. Such revision not only reduces the resistance to the transition from the non-standard contract responsibility system to the standard stock ownership system, it also facilitates the transfer of enterprise rights, mergers, and the establishment of enterprises groups, and it also prepares the conditions for thorough price reform in the future.



At this stage, the adoption of financial responsibility contracts will have improved the state's financial condition, and this will also lend support to the comprehensive revision of commodity price parities. The policy of "open subsidies" still cannot be abolished, but as enterprise income increases, and as the income of staff and workers become more closely linked to enterprise economic performance, the form of subsidies may change, that is, workers in enterprises will receive wages which contain all or part of the subsidies to compensate higher prices. Subsidies will no longer come from the government. "Open subsidies" should be limited to government department workers. These steps are essential for preparing the right conditions for price reform in the next stage.

We should note that the second stage will mean greater economic turbulence in society, because, on the one hand, comprehensive revision of commodity price parities needs the financial support of the government, and on the other hand, as enterprises make the transition from the contract responsibility system to the stock ownership system, and with increasing enterprise transfers, mergers, and other activities subsequent to the delineation of property rights, the way enterprises hire workers will change dramatically, and there will be surplus labor as jobs are eliminated and workers are dismissed by enterprises. With respect to these workers, it is not just a matter of finding a place to settle down, but more important, it is a matter of retraining, job transfer, or relocation. If these issues are not resolved properly, they will contribute to instability in society. The financial ministry must share this responsibility with society. Although society must find ways to solve unemployment problem, without sufficient government financial help, it will be difficult to eliminate these destabilizing elements.

Thus in the course of thorough enterprise structural reform, once we passed the contract responsibility phase, if enterprises proceed to the stock ownership system, and along with the right to make business decisions and the responsibility to take care of their own profits and losses, they will have the right to determine many aspects of their work force, then some unemployment will be inevitable in society. The unemployment problem can be frictional or structural. The government's financial support is not the basic solution to the unemployment problem, but the importance of financial support in buffering the shock of society's economic loss resulting from unemployment should not be overlooked.

### C. The Third Stage (1993-1995)

The central task in the third stage is to shape enterprises into companies and make joint stock companies the principal form of organization among large and mid-sized enterprises. In order to accomplish this mission, we must also implement appropriate price and financial reform measures.

After the comprehensive revision of the commodity price parities, and as enterprises gain vitality and ability to handle price reform, we can now implement thorough price reform, that is, decontrol and let the market set prices. The government should only regulate and adjust price fluctuations indirectly. Naturally, price decontrol means abolishing the double track pricing system and installing the system of market prices, but this does not imply that the government should abandon its economic management functions. The relationship between the adjustments made by the government and by the market is such that we can infer that the market is the first round regulator and the government is the second round regulator. The second round adjustment is a high level adjustment; it remedies the deficiencies of market regulations. The government should not interfere if the market can do the job. The government should take action only where the market is inadequate. The objective of price reform is to establish the market price principle, and at this stage, the government should play a secondary role and only take indirect measures to adjust prices.

Market price does not refer only to the price in a perfectly competitive market. In a market with imperfect competition, market price is not a perfectly competitive price—it will be higher than what it would be if we had perfect competition, but for the commodities in a market with imperfect competition, it nevertheless is a normal price. The effect of the government's indirect regulation obviously will be greater in a market with imperfect competition than in a perfectly competitive market.

At this stage, the demand for some products is still greater than the supply, and because resources are limited, it is not possible to achieve equilibrium immediately by increasing supply, and under the situation, we may want to retain the quota system, that is, temporarily, we will have a combination of a quota system and a market price system. However, this should be confined to a handful of capital goods which are critical and are essential to the national economy and the people's livelihood. This is an exception, and it should not get in the way of price decontrol in the broad sense.

In the third stage, a major reform measure in financial structural reform will be the transition from the contract responsibility system to the classified central and local taxation system, that is, the allocation of direct taxes to the central government and indirect taxes to the local governments. Shaping enterprises into companies can facilitate the implementation of the classified taxation system at the central and local levels. This system will arouse fervent local enthusiasm, and it will also guarantee a steady increase in the central government's revenue.

After prices are decontrolled, we should implement appropriate reform in the wage system, that is, price decontrol must be in tandem with the reform of the wage system; they must be linked together. The shaping of



enterprises into companies provides the right conditions for enterprise wage system reform. Enterprises can now implement a performance-based wage system. The state will no longer interfere with enterprise wage standards or their total wage bills. Under the premise of greater labor mobility, the wages of the workers should vary with enterprise profitability. As for public employees, we should implement an anti-corruption wage system and a "close watch policy." An anti-corruption wage system pays public employees relatively high wages but prohibits any kind of illegal income. Violations will be severely punished. A "close watch policy" means making timely adjustment in the public workers' wages as the cost of living index changes to guarantee against decline in real wages. When it comes to a choice between "open link" (wages are pegged to the cost of living index) and "hidden link" (timely adjustment of base wages according to changes in the cost of living index), based on the experiences of other countries around the world, "hidden link" is preferable to "open link."

### III. Policy Structure

During the course of economic reform, we need a host of well coordinated primary and supplementary policies. Today, since we have decided to focus on enterprise structural reform and emphasize those policies and measures which promote enterprise structural reform, then all the other economic measures must wrap around the enterprise structural reform policy, and the system of policies for each of the above three stages should be structured accordingly.

#### A. The First Stage (1988-1990)

As described above, in the first stage, enterprise structural reform focuses mainly on the development and perfection of the contract responsibility system but also emphasizes a financial contract responsibility system in the public sector, the maintenance of basic price stability, and the partial adjustment of some product prices. To complement these efforts, we can adopt the following measures in the areas of banking, investment, foreign trade, and agriculture.

In the financial sector, we must speed up the reform process and operate banks as enterprises. At the same time, we must develop and perfect the fund market. Because finance plays an increasingly important role in our economic life, financial reform not only should not trail behind enterprise structural reform, it should set the pace for enterprise structural reform. Specifically, this means while enterprises are still trying to develop and perfect the contract responsibility system, banks should begin to operate like enterprises, and they should separate government from enterprises to an even greater extent. As long as the commodity market remains imperfect because of irrational price parities, the fund market

should be further decontrolled to let the market determine the price of funds (interest rate) to balance supply and demand. This is indeed a demonstration of how financial reform can comply with and serve enterprise structural reform.

In the area of investment, we must perfect the fixed asset investment fund system and plan investments according to fund availability. Investment funds furnished by the public sector should act as the catalyst, that is, we should use some of the government's funds to pay interest when gathering funds in society in order to attract even more social funds. As a high level macroeconomic planning and regulatory organ, and as a comprehensive management department, the state's economic planning committee should not interfere with individual enterprise investment projects. Instead, these should be administered and managed by enterprise-like investment companies. When a project is completed, the investment company may sell it, lease it, contract it out, or control it with the majority stock and turn it into a subsidiary. This method not only facilitates the development of the enterprise contract responsibility system, it also promotes the development of the fund market.

In the area of foreign trade, reform should emphasize the contract responsibility system too. This system helps the foreign trade enterprises gain the right to operate independently and earn more foreign exchange. With respect to the distribution of foreign exchange earnings, those who earn more foreign exchange should be allowed to retain more foreign exchange and spend more foreign exchange. Therefore, raising the foreign exchange retention percentage is imperative.

As far as agriculture is concerned, the first stage agricultural reform should emphasize greater mobility of the key productive factors. The output-based family contract responsibility system has many advantages, but it has its deficiencies. A more notable deficiency is that the system frustrates farm operations of moderate scale and therefore discourages intensive farming and cannot guarantee steady increase in the supply of agricultural products. In tandem with the partial revision of prices (mainly agricultural product prices), we should make use of financial institutions to support agriculture. We should encourage the compensated transfer of land-use rights to develop large-scale operations, and we should establish an agricultural product parity price fund to stabilize agricultural production. The promotion of agricultural reform will help maintain price stability during the first stage and thus guarantee the smooth implementation of enterprise structural reform.

#### B. The Second Stage (1991-1992)

In this stage, with properly defined property rights, enterprises can now make the transition from the contract responsibility system to the stock ownership system. Accordingly, prices should be thoroughly revised, and we also need concerted reform measures in finance, investment, foreign trade, and agriculture.

In the financial sector, we should speed up the integration of banking and industry and take a big step toward establishing the systems of stock ownership, controlling interest, and financial groups in the financial institutions. At the same time, the scope of operation of the fund market should also be expanded to stimulate stock exchange activities.

In the area of investment, as enterprises make the transition from the contract responsibility system to the stock ownership system, and as banking and industry become more integrated, investment banks and enterprises should merge their funds. Investment banks should become the center of the banking-industrial financial groups.

In the area of foreign trade, by this time, more enterprises should be allowed to participate directly in foreign trade activities. Foreign trade enterprises should be developed into trans-departmental and diversified enterprises under the stock ownership system.

In agriculture, at this stage, we should support the socialist family farms which are the product of the transfer of land-use rights with compensation, and give full play to these farms' own production, shipping, and sales efforts. With help and support from the financial institutions, family farms can band together to organize transport and sales cooperatives and generate higher income.

### C. The Third Stage (1993-1995)

In the third stage, among the reform measures to shape enterprises into companies, price decontrol measures warrant the greatest attention. Reforms in finance, investment, foreign trade, and agriculture should be consistent with price decontrol efforts.

In the area of finance, interest rates should be decontrolled. The state may regulate and adjust supply and demand in the fund market indirectly. Regulation of the credit volume essentially can be eliminated, in other words, credit volume should be regulated only under very special situations.

In the area of investments, enterprises (including investment banks which are enterprises and investment companies) should become the primary investors, and their investment behavior should be regulated by market mechanisms. After prices are decontrolled, investments may be guided by the rate of interest. The government, on the one hand, may indirectly regulate the investment banks which are directly regulated by the market. On the other hand, depending on the revenue situation, the government should invest in some non-business oriented projects.

In the area of foreign trade, the exchange rate should be decontrolled, and through reforms, the state can administer a flexible exchange rate system. Foreign trade surplus and deficit may be regulated by increasing exports, adjusting the tariff rates, or imposing import quotas.

In the agricultural sector, besides decontrolling product prices, the rural labor market, the real estate market, and the fund market should also be decontrolled in succession. If these markets are decontrolled, the family farms' cooperative efforts in production, transportation, and sales can be further developed.

### IV. Policy Gradient and Uneven Preferences

The above economic reform policies are designed for the nation as a whole. Because of uneven social and economic development in different parts of the country, and because some coastal regions were opened up ahead of other regions and thus have certain policy advantages, in the design of the national economic policy, we must pay special attention to the following points.

One, how to prevent the coastal regions which had a head start from raiding the price and wage structures of the adjacent regions, that is to say, diverting the flow of commodities and attracting qualified personnel from the adjacent regions by raising prices and wages, thus impeding the economic development of the adjacent regions. If this is allowed to continue, even if we implement all the reform measures in the three stages outlined above, the effects will be diluted in the provinces, cities, and prefectures neighboring the coastal regions.

Two, how to prevent the income gap between the richer regions (including the coastal regions) and the poorer regions (mainly the interior border and remote areas and the mountain areas) from widening and in turn jeopardizing social stability.

To solve these two problems, or at least to prevent their becoming acute problems, we must introduce the concepts of policy gradient and uneven preferences into the overall design of the economic reform policy, and embody these concepts in the actual reform measures.

The policy gradient corresponds to uneven economic development and extent of opening up in different parts of the country. The nation's economic development gradient is an objective fact. Between the two extremes of the best developed and the least developed regions we will find many in-between regions. For example, there are relatively well-developed regions and relatively underdeveloped regions. The industrial structure, the product-mix, the income level, and the educational and technological standards of the staff and workers are different for regions at different levels of develop. On the other hand, the decontrol ladder has only two rungs at the present time: the coastal region is on one step and the interior is on the other. Preferences do not diminish by

degree. Instead, it is an "all or none" situation. The existing decontrol gradient does not match the objective development gradient. To remedy this incongruence, we have to make some differences in policy, that is, create a policy gradient. This should be reflected concretely in different development policies and different policies for opening up the regions to the outside world, and there should be several interim tiers between the extremes, so that the gap between the two extremes can be bridged by gradual steps to minimize the contrast.

Uneven preferences is the manifestation of the policy gradient. An unequal policy ultimately demonstrates itself in the different amount of favors extended. For example, if the preferences in certain coastal region are rated 100, then the policy gradient which corresponds to the decontrol gradient will be reflected in several transitions where preferences are rated 80, 60, 40, and so on, across the country. At this stage, since all regions cannot be given the same favor (in fact, if all regions across the country enjoy the same favor, it is no longer a favor,) some regions will enjoy more preferential treatments, and stretching toward the interior from the coast, the difference will range from the most favored to the less favored to the non-favored. This policy reduces the pressure on the regions adjacent to the coastal regions and speeds up the economic development of those regions.

Based on this development strategy, in designing the system of economic reform policies at different stages, we can take the following steps.

First, as far as prices are concerned, based on the policy gradient and the policy of uneven preferences, most product prices in the coastal regions can be decontrolled (that is, the steps of partial price adjustment and comprehensive adjustment of the commodity price parities can be omitted,) and some product prices in the adjacent regions can also be similarly decontrolled. In this way, we can stop the improper flow of some commodities to the coastal regions from the adjacent regions, and this can be very effective in stabilizing and developing the economy of these neighboring regions.

Here, we must make clear that, for the country as a whole, our priority is to invigorate enterprises and make sure that they can digest and withstand price reform before decontrolling prices and letting the market set prices. In the coastal and adjacent regions, however, we can implement enterprise structural reform concurrent with price reform. Primarily, this is because the coastal regions (such as Guangdong) have already taken those steps and we must not stop or slow the pace of reform and reverse its course, and in order to limit the economic assault by the coastal regions on their neighbors, we should similarly let the adjacent regions selectively decontrol the prices of some products. Furthermore, from the point of total population and total production, the coastal regions, along with the adjacent regions, make up a very small portion of the country's total

population and production. They will not cause undue economic disturbance nor will they impede the accomplishment of the central tasks of the country's enterprise structural reform.

Second, in the area of public finance, the coastal and the adjacent regions can adopt different methods from those adopted in the interior provinces. From the standpoint of the financial responsibility contract system, in order to speed up the development of these regions, they may adopt a fixed quota responsibility system, or they can also apply the policy gradient and uneven preferences principle and adopt a more advantageous incremental preference contract system—the amount of preferences may be reduced in steps. In addition, for the nation as a whole, financial contracts will be replaced by the classified taxation system at the central and local levels at the third stage, but for the coastal and adjacent regions, the transition can be moved up to an earlier time, as local conditions permit. This move is consistent with the progress of economic reform and development of those regions.

Third, with respect to agriculture, conditions in the coastal regions differ from those in adjacent regions. In fact, within the coastal provinces, the conditions along the seashore are very different from those in the vast interior areas (especially in the mountain areas). Therefore, at a time when the rest of the nation still relies on the family farms as the basic production units and still emphasizes diversification to ensure steady income and stable production, communities along the coastline may spearhead, with the financial institutions acting as intermediaries, specialized farm operations where land will be concentrated in relatively fewer hands in order to develop single-product family farms, and they can take the initiative to gather funds to set up production, shipping, and sales cooperatives. For example, innovative systems which facilitate large scale operations such as the "cultivation and harvest agencies," "land-deposit banks," and "land-deposit cooperatives" should first be introduced in the coastline areas before being brought to the interior of the coastal provinces and the adjacent regions. "Cultivating and harvest agencies" refer to the companies which cultivate and harvest crops for peasant households which have contracted land. Some peasant households have contracted small plots of land and the primary workers have turned to non-agricultural work but are unwilling to give up the land. They enter into contract with the "cultivation and harvest agencies," and the latter take over the production responsibility, and they charge a fee based on the number or the quality of workers, or they take a percentage of the harvest. This kind of contract may last a year, several years, or even over 10 years. "Land-deposit banks" and "land-deposit cooperatives" refer to the arrangement whereby peasant households "deposit" their contracted land at the banks and receive a fixed interest income in return, and in the interim, their right to use the land will held by the "land-deposit banks" or the "land-deposit cooperatives." Minimal deposit term is one year, and the longer

the term, the higher the interest. When the term matures, the peasants may retrieve their land-use rights, or they may redeposit those rights. Before this kind of "land-deposit bank" or "land-deposit cooperative" can be set up, peasant households or other investors in some localities may put together funds to set up a "land-deposit fund association" to attract peasant land-deposits.

These are also measures which promote further reform in the coastal and adjacent regions. In the future, as conditions mature, interior provinces may adopt similar measures.

Four, in the area of foreign trade, in order to meet the needs of opening up to the outside world, the coastal and adjacent regions may also rely on the policy gradient and uneven preference principle and adopt measures which are different from those adopted by the interior provinces, or spearhead new measures pertaining to the foreign exchange retention percentages and the foreign trade enterprises' right to participate in foreign trade directly.

In addition, when it comes to wage reform, social security, employment and other reforms, we can also rely on the policy gradient and uneven preference principle, and take into consideration the special attributes of the coastal and adjacent regions and the progress of the other reform measures, and adopt different measures accordingly. These measures will not slow the progress of the reform in the country as a whole, and they can promote the economic development of the coastal and adjacent regions. In the overall scheme of economic reform, they should not be overlooked.

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## SMALL-SCALE ENTERPRISES

### Analysis of Township Enterprise Administrative System

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[Text]

### III. Distribution of Business Decision-Making Authority in Township Enterprises

Business decision-making authority is divided between two levels in township enterprises. On the first level is the division of authority between rural governments and

enterprises. On the second level is the division of authority within enterprises. The nature of the division of decision-making authority can affect the rules by which the enterprise system operates.

#### A. Personnel Hiring Authority

Generally speaking, rural government intervention in authority over personnel in rural enterprises is restricted to the principal leaders in plants, and thus it is limited, in some cases, to the appointment and dismissal of the plant manager alone, with but very little intervention in, or even no concern at all about, other personnel assignments in an enterprise. Grassroots level cadres in township enterprises obtain positions through different channels depending on the system of ownership of the township enterprise. In non-rural enterprises, except for a small number of specialists in enterprise operations, grassroots level cadres' positions are often related to the amount of capital they have invested. However, in rural enterprises, the way in which grassroots cadres obtain positions is virtually identical to the way in which the plant manager obtains his position. Most are promoted from among the staff members and workers in the enterprise, or technical personnel in an enterprise may even be promoted through administrative action. This method of obtaining a position is very much related to the market conditions that township industries face. At the present time, in both developed and undeveloped areas alike, there is a general shortage of grassroots level cadres in township enterprises. The first shortage is a shortage in total numbers. An overwhelming majority of enterprises surveyed had a shortage of cadres, reflecting the supply and demand situation in the township enterprise labor market, namely the simultaneous existence of an oversupply of low quality labor and a shortage of high quality labor. The second kind of shortage is a structural shortage, technical personnel being in shortest supply followed by managerial personnel (see Table 10).

Table 10. Structural Shortage of Township Enterprise Cadres  
(Percent of Shortage in Enterprises)

	Wuxi	Jieshou	Nanhai	Shangrao
Managerial Cadres	61.6	39.3	29.2	32.5
Technical Personnel	98.3	86.1	62.5	67.5
Supply and Marketing Personnel	39.4	34.0	7.3	28.8
Accounting and Statistical Personnel	39.3	30.8	6.3	8.8

In general, enterprise leaders have substantial decision-making authority in the hiring of personnel. When township enterprises are founded, they are very much subject to rural government employment objectives. This means that hirings are primarily from among members of the local community. Consequently, the acceptance of rural government unified arrangements is fairly common. However, specific hiring policies remain the decision of enterprise leaders. Nevertheless, faced with both community employment pressure and government

and enterprise employment intentions, township enterprises have become rigid in their employment practices. Thus, even though enterprise leaders hold decision-making authority in the hiring of people, they are virtually powerless to change the established employment pattern. As a result, taking jobs but not leaving jobs has become the classic situation in the township enterprise hiring system.

The strong role of rural governments in rural enterprises has weakened the way in which business accounting is done by numerous rural enterprises because of the egalitarian mechanism for assigning personnel among enterprises within the community. Nearly 70 percent of those who felt there were too many staff members and workers in township enterprises also said that cuts in the hiring of staff members and workers would hold no benefits either for the enterprises' leaders or their staff members and workers. As a result, effective use of labor and reduction of enterprises' labor inputs have lost the dynamic role they might otherwise play. On this point, a problem of insufficient development exists in the township labor market from the standpoint of both buyers and sellers.

#### **B. Production Command Authority**

In an overall sense, township enterprises' production operations are basically decided by the enterprises themselves. Though some jurisdictions, such as rural governments in Wuxi County, give township enterprises output value plans, the way in which such plans are managed is, for the most part, those used by the former communes and production brigades in the management of commune and production brigade enterprises. Though they continue to be used, their substance has changed. First, from the rural governments' standpoint, the matter of greatest concern is how much profit and management fees an enterprise is able to pay each year, so the constraints of output value quotas have weakened greatly, relatively speaking. Therefore, aside from directly intervening in enterprises' major operating decisions in their capacity as owners, any rural government intervention in production management lacks vigor. Second, from the enterprises' standpoint, granted that the amount of output value helps their own standing within the community; as the impetus for township enterprises to increase profits increases, the impetus for an increase in enterprises' output value decreases. So long as they fulfill their quotas for profit payments, one might say that enterprises' responsibilities to rural governments are satisfied.

The direction of production within enterprises is a matter decided largely by the plant manager alone or a leadership team. In most cases, what the plant manager says goes. However, in the development of new products, the decision-making authority of leadership teams is somewhat greater. At the present time, the position and role of engineering and technical personnel in the decision-making process within township enterprises has not

reached the level it should enjoy. It is limited only to giving technical advice and consultation, which is a long way from substantive participation in the enterprises' decision-making.

#### **C. Investment Decision Authority**

Rural government intervention in township enterprises' investment decisions is far stronger than its intervention in short-term operational decisions. Rarely are such decisions made entirely by an enterprise itself; an overwhelming majority of rural enterprise investment decisions are made by the rural government. This may, to a certain extent, be attributed to rural government control over investment funds. In most communities, usually rural enterprises' reinvestment comes out of funds under centralized rural government control. This is particularly true in areas like Wuxi, an area in which rural enterprises predominate, and where the main investor is usually not an enterprise but a rural government. At the present time, the orientation of rural government investment decisions raises the level on which decisions of this kind are made, relatively decreasing the probability for error in decision making. This may remedy the insufficiency of managerial talent within township enterprises themselves. At the same time, it frequently results in a disjunction between investment per se and enterprises' production.

The division of investment decision-making authority of different kinds in township enterprises also differs. Generally speaking, rural government decision-making is somewhat greater on investment in the expansion of reproduction, while decision-making by enterprises themselves is greater on investment for replacement and technical transformation. (See Table 11). Nevertheless, in a substantial number of enterprises, depreciation funds must be turned over to rural governments in the same way as profits to become a part of the rural government's centrally controlled financial resources. As far as the rural governments are concerned, there is no difference between the depreciation funds and the profits that enterprises pay, so no distinctions are made in the way they are used. As far as enterprises are concerned, however, inasmuch as their decision-making authority on investment for expansion is limited, enterprises use a substantial percentage of their depreciation funds for expansion and new construction. In Wuxi, it is 37.8 percent; in Jieshou, 49.9 percent, in Nanhai, 44.4 percent, and in Shangrao 28.4 percent. Such a use of depreciation funds is obviously extremely disadvantageous for the main equipment in most enterprises, which has long since become utterly antiquated. Moreover, a regular depreciation system is generally non-existent in rural enterprises, and there are no clear cut depreciation quotas. From the government to enterprises, the impulse to expand has meant a constant diversion of funds obligated for depreciation. As a result, the not very strong technical capabilities for expansion of township enterprises has become an extremely common phenomenon.

Table 11. Division of Investment Decision-Making Authority in Different Kinds of Enterprises

	Wuxi		Jieshou		Nanhai		Shangrao	
	Production Expansion	Renewal and Transformation	Production Expansion	Renewal and Transformation	Production Expansion	Renewal and Transformation	Production Expansion	Renewal and Transformation
Rural Government	12.1	9.1	2.7	0	4.2	0	20.0	10.0
Rural Government and Enterprise Joint Decision	48.5	21.2	21.6	5.4	45.8	33.3	40.0	40.0
Shareholders	0	0	5.4	5.4	20.8	4.2	5.0	5.0
Enterprise Leadership Team	30.38	60.6	37.8	54.1	12.5	29.2	35.0	40.0
Plant Manager Alone	6.1	6.1	27.0	27.0	16.7	20.8	0	5.0
Enterprise Staff Member and Worker Representative Assembly	0	0	2.7	2.7	0	0	0	0
Other	3.0	3.0	2.7	5.4	0	0	0	0

#### D. Price Decision-Making Authority

The division of price decision-making authority for township products differs from one jurisdiction to another. Generally speaking, there is an extremely marked direct correlation between a township enterprise's decision-making authority for prices and the level of development of local township enterprises. There is also a marked direct correlation to the level of local market development. In Wuxi, where township enterprises are fairly well developed, there is little rural government intervention in the formulation of enterprise prices. There are two reasons for this. The first is that product price rises resulting from rural government direct participation in the distribution of rural enterprises' profits would generate a direct advantage for government in increased profits, but in a situation in which the government is powerless to manipulate market supply and demand, prices can only be such as the market can bear; consequently price decision-making authority naturally reverts to enterprises. The second is that since most products are machinery that is sold elsewhere, products having a bearing on local residents' consumption not predominating, there is no need for rural governments to control overall price levels.

In each of the underdeveloped counties of Jieshou and Shangrao, the locus of price decision-making authority differs. In Jieshou, the percentage of price decisions made by enterprises is higher than in Wuxi. One reason for this is the higher degree of market development here, but, more importantly, product markets here are structurally very similar. Consequently, competition is keen among industries producing the same products, making prices highly susceptible to markets. In addition, there are a substantial number of non-rural enterprises here, with the result that the degree to which rural governments intervene in enterprises' decision-making authority is everywhere lower than in other counties sampled.

This is particularly pronounced with regard to pricing policies. In equally undeveloped Shangrao County, the situation is different. Here the market for goods produced by township enterprises is more closed, and the degree of their development is lower. Overall government intrusion into rural enterprises means very strong price intervention, as much as 84.2 percent of the cases. This means that virtually all township enterprises are without authority for deciding prices. This reflects the ability of rural governments in Shangrao County to inject themselves into enterprise management, and it also reflects the far lower level of market development here than in other counties.

In addition, in the three counties other than Shangrao that were sampled, enterprises' leadership teams had far more latitude than plant managers alone in having their views heard on price decisions. This collective character of decision-making shows that at the present stage of development of township enterprises, sales of township enterprise products have gradually stabilized. No longer are product prices produced through single transactions; thus, price decisions have become correspondingly orderly and regular.

#### E. Distribution Decision-Making Authority

Township enterprise distributions are of two kinds. One is the distribution of the enterprise's net earnings, which reflects the relationship between rural enterprises and rural governments, as well as the relationship with regard to distributions among different owners of non-rural enterprises, and between owners and enterprises. The other is the distribution of earnings among staff members and workers within enterprises.

In the distribution of net earnings of rural enterprises, the extent to which rural governments intervened in every jurisdiction was much higher statistically than their intervention in other decisions. (See Table 12). The reason for this is that township enterprises have become virtually the main supports of rural government treasuries in places where they are located.

**Table 12. Locations of Decision-Making Authority For Distributions of Enterprises' Profits (%)**

	Wuxi	Jieshou	Nanhai	Shangrao
Rural Government	30.0	10.8	39.1	42.1
Rural Government and Enterprise	60.6	24.3	26.1	36.8
Shareholders	3.0	8.1	17.4	0
Enterprise Leadership Team	6.1	45.9	10.5	0
Plant Manager Alone	0	10.8	17.4	6.3

In fact, the rise of township enterprises has really changed the financial situation of rural governments. Since the institution of independent accounting by township treasuries in 1985, revenues derived from township enterprises have become the main source of rural government funds. The fixed subsidies received from treasuries at a higher level have decreased, and payments of profits from township enterprises have increased. In a county like Shangrao in which township enterprise development lags, payments made by township industries account for 54.8 percent of the township government's total revenues, while subsidies from higher authorities account for only 13.8 percent. In Wuxi County today, every township gets between 1.2 and 1.6 million yuan each year from administrative fees and various social welfare payments made by township enterprises. In 1985, financial revenues from payments by Wuxi County township enterprises to rural governments amounted to 45 percent of enterprises' after tax profits, and in some counties the amount was even higher.<sup>1</sup> Under these circumstances, dependence on township enterprises for the realization of community goals has increased markedly.

The all out intrusion of rural governments into the distribution of enterprises' profits has become indispensable to insure payment of township enterprise profits. In the counties sampled, staff members and workers had no opportunity whatsoever to take part in decisions about the distribution of township enterprises' profits, and not even plant managers had much authority to speak out in Wuxi County. In this county, distribution of profits from enterprises usually takes the contract form whereby a fixed portion of enterprises' profits are paid to the government. Most contract quotas are half in the nature of a command and half in the nature of an agreement, and the basis for payments is increases above a base figure. In Shangrao County where profits from township enterprises are bundled together, the rural governments' centralized allocation of them is even more striking.

Therefore, profit distributions here are entirely administrative. In Jieshou and Nanhai counties, where the percentage of non-rural enterprises is very much larger, limitations on property rights have lowered the ability of rural governments to intrude themselves into the distribution of township enterprises' profits, the percentage of their participation being 35.1 and 65.2 percent respectively. Even so, this is still much higher than the degree of their participation in other business decision-making.

This participation in the distribution of enterprises' profits in a county such as Wuxi, in which rural enterprises are overwhelmingly dominant, means an increasingly heavy tax and profits payment burden for enterprises with each passing year. Moreover, in a situation in which enterprises seek every opportunity to avoid taxes, rural governments often adopt an attitude of acquiescence or support. However, they positively will not permit enterprises the slightest neglect in payments of profits to rural governments. Furthermore, township enterprises' ability to pay never satisfies the needs of rural governments and, in some cases, rural governments have killed the goose that lays the golden eggs.

Data from sampled shows the following with regard to decisions about staff member and worker earnings: Rural governments' degree of intervention in the earnings of staff members and workers in township enterprises was less than in the distribution of profits. Specific decision-making authority about staff member and worker wages reposed in the enterprises for the most part, with enterprise leaders having authority to decide the form of wages, to decide rules governing the distribution of wage income, and even to decide the total wage bill. Furthermore, decision-making authority over the fixed portion of staff member and worker wage income was even more within the purview of enterprises' leadership teams and the plant manager. Plant managers directly decided the amount in 66.7 percent of cases in Wuxi, 71.4 percent in Jieshou, 75.0 percent in Nanhai, and 58.8 percent in Shangrao.

In order to control consumption inflation, the state has ruled that when township enterprise staff member and worker monthly income is more than 80 yuan, an excess receipts tax must be paid. However, since there are still very few enterprises in underdeveloped areas where earnings reach this level, this is not a pressing issue. But in developed areas, rural governments have no strong desire to control total income in enterprises, and this control is not forceful. For example, in numerous enterprises in Dongjiang Township in Wuxi County, staff member and worker monthly wages average between 100 and 125 yuan or more. However, not a single enterprise pays an earnings control tax. Even though the state has prescribed payment of such a tax to the township government, for those township enterprises that have already paid required profits to the rural government, such a tax is doubtlessly an added burden. Therefore, insofar as possible, township enterprises evade this tax.



Among township enterprises in Wuxi County, it is common for income to be on a curve, such as subsidization of the farming operations of staff members and workers employed in an enterprise.

Analysis of the division of business decision-making authority for township enterprises produces the following conclusion: First, decision about township enterprise inputs and outputs are centered in the enterprises, but decisions about the distribution of net income is centered in rural governments in most cases. Second, within township enterprises, production command decisions are usually made by the plant manager, but in businesses related to market development, decisions are made collectively by operators of the enterprise for the most part. Third, in areas having markets that are open and highly developed, enterprises' decision-making authority is much greater, but in places where markets are relatively closed and not highly developed, governments have more decision-making authority. Fourth, in rural enterprises, business decisions are more subject to rural government intervention, but in non-rural enterprises, business decisions are subject to much less rural government intervention to the point where there is no intervention whatsoever in decisions in certain regards.

#### IV. Behavior and Limiting Mechanisms of Township Enterprises

##### A. Basic Principles Governing Township Enterprise Behavior

Examination of whether township enterprises' behavior is largely controlled by markets may be done from the three angles of an enterprise's procurement behavior, production activity, and sales behavior.

First of all from an enterprise's procurement behavior, one can conclude a fairly high degree of monetization of sources of inputs into township enterprises. (See Table 13.) Even though township enterprises have also become eligible for supply of planned uniformly allocated materials as part of the reform of the materials supply system; still, the supplied materials do not amount to much as a percentage of township enterprise's total materials consumed. In an overall sense, reform of the materials supply system has benefited township enterprises in that the opening of markets for the means of production has reduced township enterprises' difficulties in getting material to input, thereby improving the environment for the existence of township enterprises. In both developed and undeveloped areas alike, the main channels of supply for township enterprises are markets, including direct procurement markets and cooperative markets among enterprises.

Table 13. Make up of the Main Sources of Raw and Processed Materials for Township Enterprises

	Wuxi	Jieshou	Nanhai	Shangrao
Distributed by County Government or Above	48.5	35.1	7.3	27.5
Distributed by Rural Government	12.1	5.4	0	16.3
Processing of Imported Materials	39.5	35.1	51.0	20.0
Purchased on the Market at High Prices	87.9	81.1	80.2	92.5
Materials Tie-ins or Compensation Trade	27.3	13.5	6.3	0

Prices paid for inputs are also a major variable indicating the extent to which an enterprise's behavior is oriented to markets. Surveys show a substantial number of enterprises sampled as receiving materials distributed by county and rural governments. Though such materials are distributed under plan, if one considers the price factor, one might say that an overwhelming majority of material supply methods differ in essence from traditional methods of supply, because most of the materials distributed by county and rural governments have been purchased from markets. In some cases, materials bought from markets have been bundled together and distributed together with materials purchased under plan at parity price. As a result, the price of distributed materials is either the market price or close to the market price. Take the supply of electric power to township enterprises, for example. The percentage supplied directly by the primary level of the county government to Wuxi was 89.4 percent, to Jieshou 89.2 percent, to Nanhai 73 percent and to Shangrao 52 percent. However, virtually no township enterprise in any area was able to get a supply of electricity at parity price. The price that township enterprises paid for electricity was between three and five times higher than the parity price. Therefore, the very high percentage of electricity distributed shows only that centralized state control over this scarce resource is very strict. In this sense, distribution per se indicates not the extent to which the township enterprises' activities qualified under plan, but rather the degree of development of the area's markets and the economic policy orientation of all levels of government toward township enterprises.

Next is a look at enterprises in terms of their production activities. Township enterprises' production and business activity is restricted substantially by the market situation (See Table 14). More than half of the sampled enterprises said that their production activities were primarily restricted by the market. In fact, the extent to which township enterprises are regulated by markets is much higher than statistics indicate. This is because numerous township enterprises' production activities are subject to rural governments' plan regulation, 56 percent in Shangrao, for example. However, there is a qualitative difference between rural government plans and plans under the traditional system. First, rural



governments set plans on the basis of market supply and demand; consequently this is, in essence, nothing more than rural governments becoming the primary business decision-makers for township enterprises in the local community and these plan policies do not differ essentially from enterprises' own decisions in terms of regulations. Second, some rural governments formulate plans and then hand them down to township enterprises in accordance with traditional management methods. However, quotas, and particularly some output quotas, are not strongly binding. While accepting plans, numerous township enterprises, including rural enterprises, will decide production on the basis of the market situation, with the result that plan control becomes an empty formality.

**Table 14. Main Basis for Township Enterprises' Formulation of Production Plans**

	Wuxi	Jieshou	Nanhai	Shangrao
County and Above Government Plan	30.4	18.9	12.5	8.8
Village Government Plan	27.3	32.4	11.5	70.0
Imported Goods Processing or Other Enterprise Ordered Goods	51.5	59.4	52.1	22.5
Determination of Market Demand	66.6	86.5	64.6	47.5

The extent to which production plans handed down by county governments are binding also varies. Most of the township enterprises in this category operate in an orthodox fashion, and their products have a finalized design; consequently, they have been included in the management purview that retains features of the former system. The difference is that from the standpoint of township enterprises, this plan control can mean that a certain amount of material is supplied to enterprises at plan parity prices, and advantages may also be gained in the sale of products. Should the plan itself be disadvantageous to an enterprise, the enterprise may disassociate itself at any time and renounce the plan. Therefore, since such plan control itself lacks a basis in property and guarantees by a subordinate administrative mechanism, it has become a standard market mechanism.

Finally let's have a look in terms of enterprise fixed price regulations. Market supply and demand factors likewise hold a major position in the way in which township enterprises set prices. "To keep on working so long as you do not sustain losses" is the point of departure for setting prices by township enterprises (Table 15). This shows that market supply and demand directly restricts the way in which township enterprises set prices. If one further analyzes the features common to township price formulation regulations, one can see that the more economically developed and least locally insulated an area, the stronger the restriction of market factors on the way in which enterprises set prices. This classic characteristic of a commodity economy is extremely pronounced; however, no matter the area, the way in which

township enterprises set prices is affected by state plans. This shows that even township enterprises that live in market areas and enjoy a substantial amount of freedom in the way in which they set prices are unable to escape the effects of state plans. By comparison, profit rates hold a relatively secondary position in the restriction of enterprises' economic returns. This also happens to show the extent to which the conduct of township enterprises can become monetarized.

**Table 15. Primary Bases on Which Township Enterprises Set Prices**

	Wuxi	Jieshou	Nanhai	Shangrao
Enterprise Production Costs	90.9	81.1	78.1	92.5
Market Demand	87.9	75.6	54.2	51.3
State List Price	63.6	40.5	24.0	25.0
Capital, Cost, and Wage Profit Rate	42.5	51.3	22.9	42.5
Other	6.0	5.4	4.2	3.8

The above analysis shows that market limitations play an important role in the conduct of township enterprises and are the primary system for regulating the operation of township enterprises.

#### **B. Basic Characteristics of Township Enterprises' Conduct**

The combination of plan restriction and market restriction make for great complexity in the conduct of township enterprises. First, sensitive reflection of market supply and demand changes is one primary characteristic of the way in which township enterprises behave. The longstanding method of operation whereby these enterprises both produce and sell products has made their operations sensitive to market fluctuations. Since there are no consistent marketing channels provided by commercial units to moderate market pressures, and since demand is not sustained by government planning units, township enterprises that are powerless to control markets have become special types of immature enterprises in the early stages of a commodity economy.

The first type is the "double direction" or "multiple direction" type. In order to meet changes in market conditions in a situation of little market transparency, township enterprises arise that have multifaceted operations in which both techniques and production technology differ completely. They readjust the make-up of their production by shifting the application of production elements within the enterprise as changes in the market system warrant. This feature of a single enterprise having a product mix of two industries is common among non township enterprises.

The second kind is the "switch" type. Some township enterprises start work when market conditions are good, and stop work when market conditions are poor, using this survival tactic to cope with market fluctuations. For enterprises having little economic strength, this is doubtlessly one method of standing up under market pressures. In terms of coping with the market, this is doubtlessly a type of enterprise in which opportunity costs are

highest. Generally speaking, in economically developed areas in which rural government intervention is strong, such a highly fluctuating kind of enterprise is uncommon. For lack of sufficient statistical data, we are not certain how the "switch" type enterprise mechanism originated; however, from the angle of development, the shortage of opportunities for employment in non-agricultural industries seems to be an important reason for their existence. On the spot surveys show that when these kinds of enterprises terminate all formal employment of staff members and workers during slack periods, all they give them is a promise that they will be given priority for hiring when work is resumed. This method of hirings and dismissals means uncertainty for staff members' and workers' livelihood and employment. Therefore, economic development may cause this type of enterprise to lose its viability.

The third kind is the seasonal type. This type enterprise comes into being to meet seasonal changes in the supply of agricultural product raw materials. One example is the dried beef and oil processing plants in Jieshou County. This kind of enterprise has numerous features in common with the type of enterprise noted above, but its production cycle is much more stable. Moreover, such enterprises are more readily accepted by staff members and workers in township enterprises who have been long accustomed to the character of farm work. Nevertheless, there is also a marked correlation between the existence of these kinds of enterprises and the shortage of employment opportunities in non-agricultural industries.

Next is the simultaneous existence of price competition and non-price competition. Price competition is an important ingredient in township enterprises' market behavior. A survey of sampled plant managers showed an overwhelming majority believed that township enterprises' goods faced severe market competition, the statistical frequency being 87.5 percent in Wuxi County, 56.7 percent in Jieshou County, 72.2 percent in Nanhai County, and 61.2 percent in Shangrao County. In a situation of severe market competition, competition from the jacking up of prices in the procurement of raw and processed materials, and competition to lower prices in the marketing of products have become commonplace. Data provided by four sampled enterprises shows a drop in the sale price of numerous products in accordance with market prices, and that competition is the reason for the drop in most cases. This includes competition resulting from efforts to expand markets and win new buyers and the stabilization of markets and the stabilization of relations with buyers. These two reasons applied in 55.4 and 74.4 percent of cases respectively in Wuxi and in 64.9 and 59.4 percent of cases respectively in Jieshou County.

Furthermore, non-price competition may hold an even more important position in township enterprise competitiveness. (See Table 16). Flexibility in procurement and marketing methods is an important element in township enterprises' successful competition against state-owned

enterprises. Even parties concerned in township enterprises would not deny that township enterprises resorted to improper methods in supply and marketing. Of course, non-price competition as an important component in township enterprises' market conduct cannot be simply attributed to the political consciousness and business acumen of the operators of township enterprises. It seems that it is attributable even more to the stringent market environment in which township enterprises find themselves. Many sampled enterprises reported that unless a township enterprise knew how to pull strings, it was virtually impossible to get ahead at all. Statistics also show that the product market environment that township enterprises in different areas face is similar to this.

**Table 16. Township Enterprise Non-Price Competition  
(Percentage of Plant Managers Surveyed)**

	Wuxi	Jieshou	Nanhai	Shangrao
Believed improper methods regularly used in supply and marketing	48.6	55.9	42.9	82.4
Denied improper methods regularly used in supply and marketing	9.1	2.9	14.3	17.9
Believed it hard to get ahead without pulling strings	24.2	19.2	50.1	55.6
Denied it hard to get ahead without pulling strings	6.1	8.3	4.5	0

Third is the simultaneous existence of short-term and long-term conduct. The direct impression gained through surveys is that investment by township enterprises may be characterized by an emphasis on new construction and a slighting of technical transformation. Therefore, there is a great contrast in the level of technology in enterprises. In particular, there is an increasing obsolescence of the main pieces of equipment in some old enterprises, some of which might be said to be worthy of the name "antiques." In other newly built enterprises, the level of technology is higher. The simultaneous situation in which investment is usually short-term for old enterprises and long-term for new enterprises has a marked relationship to the investment policies pursued by rural governments as the main investors and to community goals.

The co-existence of long- and short-term behavior on the part of enterprises also shows up as a rush to get into the production of profitable goods. A brewery in Jieshou County produced soft drinks. As soon as a soy sauce plant saw a profit could be made in this, it immediately embarked on a large scale project. Pretty soon sales became slack. At the same time, another two civilian operated enterprises entered the same market, heedlessly entering into cutthroat competition. The tide of short-term behavior by township enterprises in virtually every area has to be an important reason adversely affecting selection of investment outlets. The similarity in kinds of township enterprises in the townships of Wuxi County, and the similarities in the kinds of products they produce seem to illustrate this point.

Fourth is the simultaneous existence of profitable activity and non-profitable activity. Analysis of motives for establishing township enterprises illuminates the reasons for the simultaneous existence of profitable and unprofitable activities. Take the organizational system of enterprises. Non-profitable activity by township enterprises shows up in the way in which capital and labor are matched. With regard to funds, virtually none of the sampled enterprises invested funds from their own enterprise in other enterprises in order to achieve profit goals, and rarely was there a transfer of stocks or assets. As regards labor, most township enterprises did not weed out staff members and workers unless there was a business slump. Moreover, despite the normal situation of supply exceeding demand in the labor market, wages of staff members and workers in township enterprises continued to rise. Comparison of 1985 with 1984 showed substantial increases in the wages of staff members and workers in 66.7 percent of enterprises in Wuxi County, 75.8 percent of enterprises in Jieshou County, and 85.7 percent of enterprises in Shangrao County.

Finally, the behavior of township enterprises is characterized by marked regional insulation, but this insulation is limited to enterprises' investment of funds, land, and

labor. In most cases, it does not include enterprises' procurement and marketing behavior. On the spot investigation shows that for most township enterprises, access to information about local markets is quickest. Generally speaking, township enterprises are strongly imitative in technological matters and tend to copy from one another. This leads to township enterprises being extremely prone to the formation of specialized markets. Once an enterprise starts to produce a product at a profit, its manufacture will spread to other local enterprises; one township, or even several townships, may simultaneously start making the same thing, with industries throughout the whole area picking up on this. Even in a developed area like Wuxi County, in which the existing input area is extremely broad, the "follow effect" exists. Examples include more than 10 aluminum alloy plants in the county and the starting up at the same time of motor vehicle refitting industries in southern Jiangsu. Therefore, the adversary in competition with township enterprises is frequently not state-owned enterprises or enterprises elsewhere, but neighbors in the same township. The fiercest competition comes from the local market. As a result, it has become extremely common for township enterprises to orient sales of their products to the entire country.

Table 17. Township Enterprises' Losses

	Number of Failing Enterprises		Duration of Failure				Extent of Failure				
	(Units)	Percent of Sample	Less than 3 months	3 to 6 months	6 months to 1 year	More than 1 year	Payment of prescribed taxes	Payment of principal plus interest	Various assessments	Wage payments	Payment for materials purchased
Wuxi	7	20.6	0	429	14.3	42.9	0	40.0	0	60.0	0
Jieshou	3	8.1	0	100.0	0	0	100.0	0	0	0	0
Nanhai	6	25.0	0	40.0	20.0	40.0	33.3	16.7	16.5	0	33.5
Shangrao	4	20.0	25.0	25.0	50.0	0	12.5	62.5	0	12.5	12.5
Total	20	17.4	6.3	52.0	21.0	20.7	36.5	33.9	4.2	7.3	18.1

### C. Curbs on Township Enterprises

Twenty, or 17 percent, of the 115 enterprises in four counties that we surveyed were failing, but there were very great differences in the period of time they had been failing and the degree of failing. (See Table 17.) Examination of enterprises to determine whether they are failing, as well as the way in which they operate following failure, is one important way of ascertaining the severity of constraints on enterprises' behavior. Our on the spot survey showed that most failing enterprises at the township and village levels were able to continue operating after failing; they neither closed nor combined with other enterprises. This situation may be generally attributed to three reasons. First, it was fairly rare for an enterprise to fail over a long period of time. Among the enterprises sampled, only 20.17 percent had been failing for more than 1 year; most had been failing for less than 1 year. Second, their failure consisted of inability to pay prescribed taxes or to repay principal and interest. This did not affect the enterprise's day-to-day ability to operate. Particularly in situations in which an enterprise's main

reason for being was to provide employment, so long as it paid wages and provided employment opportunities for staff members and workers, its existence was valuable as far as the community was concerned. Third, failing enterprises could obtain government protection. Rural government protection of enterprises was rendered in three ways as follows. First was the formation within the community of mechanisms for balancing returns. Rural governments would set up a semi-centralized collection and semi-centralized payment distribution system for rural enterprises, rural government payments to help an enterprise not being limited to the amount of profits paid by that enterprise, but rather distributions being made from funds in general. This meant that each enterprise's efforts to maximize profits turned into a community effort to maximize profits. Second, rural governments took the initiative in negotiating enterprises' payments of taxes. In economically undeveloped areas, in particular, where the ledgers of township enterprises were almost always in a mess, the tax authorities had no choice but to estimate taxes on certain revenues. This left a lot of room for haggling, and rural governments,

always mindful of their own interests, frequently made readjustments to soften the tax bite. Tax collection from a certain construction materials enterprise in Jieshou County was a case in point. Use of this method meant payment of only one-tenth of the actual amount due. Third, assistance was provided failing enterprises. Usually this assistance was in the form of funds. Among the enterprises sampled, 60 percent of failing enterprises in Wuxi, 42.9 percent in Nanhai, and 16.7 percent in Shangrao received rural government assistance. Fourth, the most important organizational factor restricting enterprises behavior was rules about the payment of profits. Generally speaking, rural governments wanted enterprises to make profits and be able to pay them more profits. In practice, however, there was very little advance compulsion. Developed and undeveloped areas alike mostly adopted flexible payment rules. If an enterprise could pay a lot, it paid a lot. If it could pay a little, it paid a little. If it could pay, it paid. And if it could not pay, it did not pay. These regulations had no direct bearing on an enterprise's assets or how successful it was. Such an inconsistent distribution system led to an ultimate softening of constraints on township enterprises, which went so far that township enterprises used funds belonging to localities to meet its profit payment obligations to rural governments, or rural governments could completely underwrite profit payments no matter the reasons for an enterprise's poor business performance.

#### V. Various Conclusions About the Township Enterprise System

First of all, it should be noted that an analysis of this special development of Chinese township enterprises requires that three basic lines be followed in terms of methodology. First, pervasive reform of China's economic system is underway. Though township enterprises show a marked lack of synchronization of reform in the midst of this process, they cannot help but be powerfully buffeted by complete system reform. Therefore, it is necessary to understand the township enterprise system in the midst of changes from the angle of the dynamics involved. Third, though there are similarities between China's township enterprise system and its urban state-owned enterprise system, at the same time there is not the simple repetitiveness of state-owned enterprises. Instead, numerous more complex inherent economic and social determinants have been added, the ones requiring special attention being the effect on the enterprise system of the traditional rural community structure and theoretical concepts. Third the township enterprise system per se includes numerous indeterminants and inconsistencies that are manifested not only in differences between one area and another, but show up even more in the complexity and disorderliness of their operations. This poses extremely great difficulties for our present analysis of China's township enterprise system. In view of these difficulties, though we may be able to clarify certain facts through analysis, all that can be

provided is the operating characteristics and the dominant direction of development of the township enterprise system based on sampling and statistical verification.

Current circumstances show the township enterprise system not to be pure in character, and the mechanism of its structural organization to be extremely complex. Not only does it differ from that of urban enterprises (including both state-owned and collective ones), but because of the overlapping role of a series of factors including differences in economic development, differences in the extent of market development, differences in the established pattern of township enterprise ownership, differences in geographic location, availability of resources, and transportation conditions, and differences in educational levels and cultural habits, there are marked differences in the township enterprise system between one area and another. Even so, various general conclusions may be reached through a positive analysis of the township enterprise system.

*First, the township enterprise system is markedly dualistic.*

Market regulation and non-market regulation, and monetarized behavior and non-monetarized behavior exist at the same time. This is a most representative characteristic of the township enterprise system. Every since they began, township enterprises have been excluded from the traditional system and placed in a "quasi-legal" position. Consequently, they do not behave like enterprises in the centralized command style plan category, and their supply and marketing is not assured. This means that township enterprises are forced to rely on sometimes existent and at other times non-existent markets. They exist on the fringes and in the cracks of the national economy. As economic reform progresses and commodity currency relationships develop, simultaneous with changes in the conditions in which township enterprises exists, market regulation will apply more and more to the regulation of township enterprises' behavior. This will be manifested prominently in the following ways. First of all, township enterprises will have a very powerful profit incentive, and this will be a primary limiting influence in the selection of investment outlets and the orientation of operations. Second, the business conduct of township enterprises will be considerably subject to market limitations. Enterprises will react quickly to market supply and demand and will be able to act to meet changes. Finally, township enterprises will be rather strongly able to bear risks and will be able to tolerate the impact of market fluctuations.

Nevertheless, simultaneously, numerous non-market factors will be at work in the township enterprise system, manifested primarily in a diversification of incentives for township enterprise behavior. There will be purely economic incentives such as pursuit of profit, and there will be the social incentive of providing employment.

Second, township enterprises, particularly township and village enterprises, are not main bodies for independent decision-making. Finally, to a certain extent, a softening in constraints on township enterprises' activities exists. All of this suggests that today's township enterprises are not totally independent commodity producers.

Granted that the dualism of the township enterprise system is closely related to the country's economic system currently being in a stage in which double emphasis exists; nevertheless, the dualism is obviously not rooted in this. This is because as the extent to which state-owned enterprises are regulated by the market mechanism grows with increasingly pervasive reforms, no corresponding change has taken place in the extent to which town and township enterprises are regulated by the market mechanism. In some places, such as Wuxi, there is even a strengthening tendency. Therefore, the dualism of the township enterprise system obviously has a more profound background.

*Second, the function of rural governments has changed according to changes in the level of development of township enterprises.*

Participation by rural governments in the administration and management of township enterprise operations is common in every kind of area, though there are marked differences in the degree of participation. It is worth noting that there is no extremely marked direct correlation between the degree of rural government participation and the level of development of an area's township enterprises. However, there is a fairly marked direct relationship between the results of such participation and the level of development.

We have found that in undeveloped areas, direct intrusion of rural governments, or even of county level governments, in the organization of rural industrialization has become an important factor in township enterprises getting started. Possibly this is because the long-standing impoverishment of these areas has caused a sorely deficient accumulation of both initial inputs of essential elements (primarily capital and technology), and a consciousness of commodity economies that has resulted in individual peasants in these places finding it very difficult to pass through the door of industrialization. Under these circumstances, initiative by rural governments, using the existing commune and brigade economy and public accumulations as a springboard to manage in a concentrated way the already amassed small amounts of resources to advance organized industrialization is, perhaps, a more feasible choice. In view of the marked contrast in the level of development of township enterprises in different areas, the advent of different rates of speed, and reliance on rural governments to organize rural industrialization, thereby reducing the period for "firsthand accumulations" by undeveloped areas, holds more conspicuous significance.

Though we are still not completely clear as to where the economic limits of results from rural industrialization policies directly organized by rural governments should be, it can be pointed out that even in those areas in which township enterprises have developed, it remains necessary for rural governments to main a proper amount of participation. This is because if this participation is given up, granted that enterprises under different systems of ownership, of a different size, and of a different nature would encounter fewer obstacles in the strengthening of market competition; nevertheless, this might lead at the same time to the ill-advised development and unsoundly based expansion of township enterprises. In the natural choice of transitional competition, a number of township enterprises suited to a commodity economy might come to the fore. However, a mechanism that replicates constantly at a low level might also be formed, causing township enterprises to become "long life grass" or "small old trees." In view of the regional pattern of increase of township enterprises that has already come about, and the trend toward a rigorous market situation, there is a greater possibility of unorganized industrialization producing results that might slow progress in rural industrialization in undeveloped areas.

In areas in which township enterprises are already fairly well developed, there has been a marked increase in negative effects from the maintenance of a high degree of rural government participation in enterprises' operations. This is because this participation has become a mechanism for institutionalizing the relationship of an industrial organization brought about by machinery as an appendage to the traditional agricultural organization. It limits township enterprises' choices of investment outlets, it adversely affects the reconstitution of enterprises' elements of productions and further optimization of the structure of industry, and it adversely affects progress in the industrialization and urbanization of rural villages, the insulation of township enterprise developed areas steadily reappearing as a result. It restricts a scientific pattern of distribution, sensible concentration, and the scale of operation of enterprises. Moreover, no matter how the strength of township enterprises grows, it seems it will be difficult to satisfy the steadily inflating requirements of rural government functions. "Siphoning" from distribution may lead to enterprises having insufficient accumulations of their own, resulting in an adverse affect on microeconomic returns.

*Third is the double significance of the conformity of enterprise culture to community culture.*

The industrialization of China's rural villages has taken the non-urbanization road of "leaving the land without leaving the villages." Thus, the community structure of the newborn township enterprises will, at least for the present stage, retain close links to the traditional economic and social community of China's rural villages. This is a deeper source of the dualism of the township enterprise system and the high degree of participation of

rural governments in enterprises' operations. At the present time, it is non-economic relationships that hold the important position in relationships between township enterprises and rural governments, between township enterprises and their staff members and workers, and between one township enterprise and another. Enterprise culture has conformed markedly to community culture, and this has produced both positive and negative results.

First of all, the interests of enterprises are not independent in character. Not only is there a very powerful identity of township enterprises' goals and community goals, but if distribution relationships between township enterprises and the community are not divorced from how well the enterprises are run, at least the tie is not a close one. Rural governments, and particularly rural governments at the primary level, exercise what is essentially centralized accounting of township enterprises under their jurisdiction, serving as a balancing mechanism for community interests whereby the maximization of the interests of every enterprise is realized through the maximization of the interests of the whole community. One feature of such an organization is that it remedies, to a certain extent, the insufficient scope of township enterprises' decision-making, and it enhances the ability of enterprises to bear market fluctuations and readjustment of macroeconomic policies. It also permits a softening of restrictions on enterprises' behavior and the inadequate incentives that returns provide that adversely affect enterprises' microeconomic efficiency.

Second, the interests of staff members and workers are also not independent in nature. Township enterprises have an extraordinary ability to bond their staff members and workers. Staff members and workers have a strong feeling of satisfaction with their individual situations and have a strong sense of confidence in, and a willingness to obey, enterprise leaders. Nowhere is there a tendency for staff members and workers to leave their employment. Enterprises can very easily raise money from among staff members and workers, and they are able to resort to wage reductions in order to cope with business difficulties. Therefore, looked at purely from the standpoint of interests, there are no big differences between members of enterprises and members of the community. One feature of this system is that it lays a natural foundation for township enterprises to increase organizational efficiency, while at the same time adversely affecting the quality of enterprises' operations and the enthusiasm for work of staff members and workers.

Next, property rights boundary lines are indistinct. In every jurisdiction an infringement of rights exists in relations between private enterprises and rural governments. This is manifested not only in the assessments that rural governments levy against enterprises and the uncompensated transfers of their resources, but even more strongly in rural governments holding "authority shares" in enterprises. Private enterprises can only make

concessions to government in order to maintain a relationship with government, exchanging property rights for privileges. Because of the muddled situation with regard to property rights, some private enterprises have been taken over by government without compensation to become government operated collective enterprises. Within private enterprises, uncertainty about property rights boundary lines has led to extreme uncertainty about which property belongs to whom. Property distribution rights are artificially limited, causing uncertainty about jurisdiction over increases in enterprises' property. This has provided a basis for uncompensated government takeovers, and it has also created instability in private enterprises. Therefore, frequently what enterprises develop is taken away by cooperatives, making it difficult to optimize the size of enterprises. Some private enterprises that have become wealthy also may also become very philanthropic, correspondingly weakening profit incentives and affecting economic returns from private enterprises.

These situations show that in the unsophisticated far-flung villages of China, the development of township enterprises has generated intense frictions between commodity economy culture and traditional community culture, and this friction has given rise, in turn, to conformity. It has also produced an adverse effect on the township enterprise system, sustaining and maintaining a relatively insulated community and curbing the behavior of rural governments, rural enterprises, and individual staff members and workers.

Finally, it should be noted that the policy significance of the foregoing analysis of the characteristics of the township enterprise system lies in the necessity for selecting a suitable reform plan for reform of the township enterprise system that is in keeping with the characteristics of the system. One cannot ill-advisedly push for powerful market regulation, a separation of government and enterprises, or a separation of ownership rights and operating rights in making reforms. Different measures have to be taken on the basis of different levels of development in different areas. At the same time, full consideration must be given to the effects on the enterprise system of traditional culture, and consideration must be also given to the role of township enterprises in the invigoration of the entire rural economy, and their position and historical role in the entire rural industrialization process for the formulation of rational policies, and the promotion of reform of the township enterprise system.

#### Footnote

1. JIANGSU JINGJI TANTOU [JIANGSU ECONOMIC REVIEW], 1986, Third Quarter.

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in Chinese 31 May 88 p 2

[Article by Feng Ying 7685 5391 and Jin Zhen 6855 2182: "Private Enterprises a Boost to the Economy of Qinghai"]

[Text] Should private enterprises be developed? Given the state of economic development in Qinghai in the initial stage of socialism, we believe it is not only necessary, but also urgent, to develop private enterprises. According to statistics, there were 51,985 individual households in the province by late 1987, with a total employment of 81,700 people and annual sales reaching 560 million yuan, including 340 million yuan in commodity retail sales, 15.4 percent of the province's total. Their combined industrial output value topped 70 million yuan, 2.7 percent of the province's gross industrial output value. From 1982 through 1987, they paid a total of 60.07 million yuan in taxes, including 17.84 million yuan in 1987, 4.45 percent of Qinghai's total revenues for that year. There were approximately 267 private enterprises, with a total employment of 5,700 people and an annual gross output value of 70 million yuan. Without any investment by the state, the individual economy and private economy have grown rapidly over the past few years. Clearly they have been increasingly instrumental in boosting output, stimulating the market, promoting economic prosperity, making daily life easier for the people, expanding employment, stabilizing social order, providing the state with revenues, advancing urban and rural country fair trade and the development of small market towns, and, in particular, expediting the growth of the commodity economy in remote and economically backward areas. Practice has fully proved that the development of private enterprises and commodity production involving many players and the diversification of incomes have tremendous practical significance for accelerating economic development in the province at a time when its commodity economy remains underdeveloped and level of productive forces is still low. On the one hand, the burden on the state will be eased. On the other hand, things the state cannot or should not do will be taken care of by somebody else. Everybody has a role to play, complementing one another.

Some people worry that too many private enterprises would undermine public ownership. In our opinion, this worry is unwarranted in view of the current state of their development. Take 1987, for instance. Private enterprises accounted for a mere 2.7 percent of the province's gross value of industrial output. If and when the figure increases to 15 percent, there will be over 100 private enterprises like Zhitingxiang employing as many as 15,000 people, an even bigger boon to the province both economically and socially. But even then public ownership will remain the backbone of the economy in Qinghai. Consequently, instead of having gone too far in developing private enterprises, we have not done enough so far and have a long way to go. This is determined by

the low level of productive forces and the limited extent of the socialization and commercialization of production in the initial stage of socialism. It is also determined by such basic national characteristics as the great unevenness between regions and industries in levels of technological, economic, and cultural development. It is absolutely not a subjective or arbitrary choice. Nor is it a mere expediency. On the contrary, it is a major policy that must be adhered to in the long haul. The development of a commodity economy where various economic forms coexist will necessarily be accompanied by the emergence and prospering of some individuals with an aptitude for business who put the market to work for them, compete their way to success, and build up their private enterprises. A case in point is Zhitingxiang.

While no symbol of advanced productive forces, the private enterprise has indeed expedited the development of social productive forces, and although wage relationship and exploitation exist in it, this kind of exploitation is consistent with the people's basic interests in the present stage. The departments concerned and leaders at all levels should assess and handle the development of private enterprises using the standards of the development of productive forces. They should feel more urgent about developing private enterprises.

Today we are faced with the critical task of revitalizing the Qinghai economy. The message sent out by the policy of the central government is clear. Ownership by the whole people need not totally dominate all localities and all sectors of the economy, and collective, individual, and private enterprises may be permitted to play the leading role. With its underdeveloped commodity economy and inadequate financial resources, Qinghai can even less afford to revert to the old practice of having the state bankroll everything. Instead, it should adjust and reform the shares of the different sectors of the economy, the economic structure, and forms of operation. Basic leading industries such as energy, basic raw materials industry, defense industry, capital construction, and public utilities should be run by the state. That aside, most processing industries, light industry, textiles, food industry, and catering services should be operated by those sectors of the economy other than the public sector. This approach would help mobilize the initiative of the masses, promote the development of productive forces and the flourishing of the commodity economy, and raise living standards. The shares of the various economic sectors should also differ from region to region and from industry to industry. For instance, private ownership should expand to account for over 40 percent of small retail business, handicrafts, restaurants, hotels, repair services, photography, hairdressing, laundry, and child care in the Xining region, over 60 percent in the agricultural region in the east, and over 70 percent in the pastoral areas in the west. Even then private enterprises would still not undermine socialist public ownership and may even be better able to meet the objective demands of developing social productive forces in the province.



## LABOR

### Linking Wages to Prices

40060398 Beijing JINGJI CANKAO in Chinese  
20 Jun 88 p 4

[Article by Li Yunlin 2621 0061 2651, Guo Lian 6753 1670, Chai Wuchang 2693 2976 1603, and Qiao Liang 0829 2733 of the State Economic Information Center: "Issues in Linking Wages to Prices"]

[Text]

#### The Need To Link Wages to Prices in China

We think that the need to link wages to prices should be approached from two angles. 1. Should price compensation for price rises be carried out? 2. How should price compensation be carried out?

##### 1. The Need for Price Compensation

When prices are rising steadily, staff members and workers will sustain some economic losses due to currency depreciation. In order to make up for these losses, the state must compensate them with compensation funds. This is called price compensation. Linking wages to prices is a form of price compensation in which some wages of staff members and workers fluctuate along with price rises.

Price compensation serves a dual purpose. 1. It ensures that the basic living standards of staff members and workers do not fall due to price rises, which is determined by the basic nature of China's socialist system. 2. It reduces the social risk of price rises and ensures social stability. This is even more important to the reforms that China is carrying out.

The living standard and the average living standard of staff members and workers are two different but related concepts. We cannot say with certainty that price compensation is unnecessary only because the average wage increases of staff members and workers are larger than price rises. In fact, China's present income disparities have gradually increased and some staff members and workers have sustained economic losses due to price rises. Data from the State Statistical Bureau shows that the real living standards of the families of over 20 percent of staff members and workers throughout China fell in 1987 due to large price rises. This is one of the main reasons why price compensation must be carried out.

It should be pointed out that the changing relationship between income and prices is only an indirect factor and that the relationship between expenses and prices is the direct factor affecting residents' tolerance for price rises. Residents' tolerance for price rises should be analyzed

from the viewpoint of the effect of price rises on their real consumer expenses. This can be stated as the ratio between the increased expenses of staff members and workers due to price rises and their increased income from wages. We call this ratio the coefficient of residents' tolerance for price rises. Based on this tolerance coefficient and reactions to price rises by the masses each year, residents' tolerance for price rises can be delimited in line with China's actual conditions for reference by the departments that set wage and price policies.

It has been necessary to carry out price compensation in the past few years because price rises have made the increased expenses of staff members and workers higher than their increased income.

Residents' tolerance for price rises must also be thoroughly analyzed from the angle of the price rises of various commodities. Statistics show that since 1978, foods are the consumer goods that have experienced the greatest price rise, or 54 percent; of these, the prices of non-staple foods have risen even more notably, or 73.9 percent. Moreover, the prices of fresh vegetables have doubled. Residents reacted most strongly to price rises in 1985. Compared with 1984, prices of consumer goods rose 8.3 percent, food 13 percent, non-staple food 17.7 percent, and fresh vegetables 36.1 percent in 1985. Although the trend of rising prices eased up somewhat in 1986, the prices of non-staple foods, which are closely related to the people's living standards, still rose 8.6 percent over 1985.

Since the prices of daily necessities have risen so much, it has been necessary to carry out price compensation.

##### 2. The Need To Link Wages to Prices

What is the best form of price compensation? Theoretical circles are now debating three forms. 1. General wage adjustment. 2. Price subsidy. 3. Linking wages to prices. Each form of compensation has its own distinct characteristics.

General wage adjustment admittedly can ensure, to a certain extent, that the actual compensated income level of staff members and workers does not fall, but it blurs the distinction between wages from price compensation and payment for work. As a result, it weakens the effects of both, makes it hard for staff members and workers to distinguish which part of their income is to compensate price rises and which part is regular income from work, and is unclear. Moreover, it does not depend mainly on losses sustained by staff members and workers due to price rises, but rather on the condition of national finances. Although this form of compensation gives the state somewhat more financial initiative, it loosens the relationship between price compensation and price rises and is hard to institutionalize.



China's present price subsidies are being carried out in two forms. 1. When commodity rises are usually lower than value or cost for particular reasons, the state gives value compensation to producers. 2. When price rises cause residents' real income to fall, the state gives them income compensation. We think that value compensation subsidies from public finances make it hard to regulate product price relations and price differences, make it hard for enterprises to carry out economic accounting, and make it hard to regulate the relationship between the rights and interests of the state and producers. Thus, value compensation should be gradually changed into income compensation. Since the prices of consumer goods and service projects are all rising, the state could not subsidize staff members and workers by regulating the price of one consumer good; nor could state finances basically bear the cost of giving price subsidies for all price rises of consumer goods. Thus, although this form of compensation is somewhat clearer than general wage adjustment, it still could not be institutionalized or carried out over a long period of time.

Linking of wages to prices is very clear and also favorable to the institutionalization of price compensation. Linking wages to prices can make staff members and workers feel that they have secure living standards and mitigate their resistance to price rises, reduce the social risks of certain reform mistakes, and guarantee a long-range stable social climate that is needed for reform and growth. At issue is not the need to link wages to prices, but rather the need for price compensation. If prices continue to rise at a rate higher than 3 percent, price compensation will have to be considered. In which case, the need to link wages to prices will not be open to doubt.

#### **Choosing the Form and Working Out the Index for Linking Wages to Prices**

Two important aspects of the plan to link wages to prices are setting the linkage base and the price index. We think that the method of setting these figures should be based on China's actual conditions, i.e., both residents' daily necessities and also their sensitivity to price rises and the social risks must be considered.

There are now two possible forms of linkage. 1. Linking staff members and workers' basic cost of living to the relevant price index. 2. Linking wages to a certain number of food price indexes. Each form has its particular emphasis.

Staff members and workers' basic cost of living expenses are for daily necessities. Compared to their cost of living expenses, their basic cost of living expenses, including somewhat less for commodities and labor, only reflect changes in their basic living standards.

Since staff members and workers' basic cost of living is based on the concept of daily necessities, it causes difficulties in choosing which commodities are to be

linked. The concept of daily necessities changes along with changes in residents' consumption levels, which, in a certain sense, are determined by the level of the productive forces. What constitutes a daily necessity is determined by need levels. This determination method has a flavor of social ethics and its limits must change along with improvement of people's living standards.

Since staff members and workers' basic cost of living includes some commodities that are needed daily but not necessarily bought every month or year (including articles of daily use such as pots, pans, and dishes), there is less "sensitivity" to their price index. The relationship between the use value of certain commodities and people's need for them changes along with objective conditions. Thus, need should be judged mainly from the angle of residents' actual daily consumption. Generally, all very necessary commodities are perishable consumer goods and are part of residents' daily living expenses. The more times they have to be bought, the more necessary they are and the more sensitive society is to rises in their prices.

The major reason for linking wages to food is that food prices have risen quite a lot in the last few years. Food price rises are certainly the focus of social concern and also the main reason why policymakers have taken steps to subsidize them. But simply linking wages to food prices has its drawbacks. From the perspective of kinds of food, they include both daily necessities and some non-daily necessities. Comparing the need for food to that for other consumer goods, rent and the costs of water, electricity, and fuel affect residents' lives more than do some foods. Rent and the costs of water, electricity, and fuel do not have to be linked to wages now because their prices are not rising much. But what would happen if the prices of these non-commodities rose in the future? Therefore, large price rises of certain commodities is certainly a reason to link them to wages, but the "linking" is not necessarily a result of large price rises and there is certainly not a cause and effect relationship between them. From the angle of sensitivity, some comrades say that residents are more sensitive to some food price rises than to others. But the high sensitivity to food price changes is not simply because food is a daily necessity, but also because it is a consumer good. Sensitivity is not related to necessity alone, but also to the frequency of cost of living expenses. Food is differentiated according to its commercial use, while daily expenses are differentiated according to residents' consumption, which is somewhat more reasonable. One of the advantages of linking wages to prices is that it is easy to institutionalize, but the plan to "link" wages to the food price index alone is difficult to institutionalize.

Along with the change in the living standards of China's people from having enough to eat and wear to being comparatively well-off, it has become very hard to use the concept of daily necessities to "sensitively" reflect changes in people's living standards. However, linking daily necessities with residents' cost of living expenses

better reflects the consumer characteristics of China's socialist commodity economy. Thus, we advocate trying a plan to link some wages to a staff member and worker cost of living price index. The two major reasons for this are as follows.

From the perspective of production, consumer goods are divided into perishable and durable goods. In China, durable consumer goods are "large things" that have a rather long service life and are quite expensive. Generally, they are not daily necessities. Most daily necessities are certain "small articles" of everyday use (such as pots, pans, and dishes). Obviously, far more perishable consumer goods are produced than durable consumer goods. More production naturally consumes more resources. China's production of consumer goods is generally guided by demand. A huge consumer base can maintain a long and great demand for perishable consumer goods, and a great demand requires a correspondingly large production volume. The characteristics of China's large population base make production of perishable consumer goods "sensitive" in maintaining residents' living standards.

From the perspective of consumption, residents' consumer expenses can be divided into daily expenses and one-time expenses. Daily expenses are generally fixed expenses that are calculated monthly and include mainly food, fuel, and some non-commodity expenses. One-time expenses are calculated yearly or over longer periods of time. Each item in cost of living expenses has a different frequency of expense and psychological effect on residents. Residents are most perceptive of and sensitive to increases in their cost of living expenses. Daily expenses are a "sensitive" item in residents' lives and rises in their prices often cause social repercussions. There is an intrinsic connection between the need for consumer goods and the frequency of residents' cost of living expenses. Although the food that residents must consume each day and the clothing that they do not buy every day are both in the category of daily necessities, food price rises have a much greater effect on them than do clothing price rises. One reason is that residents buy food more often and almost every day. Vegetables are still in the category of non-daily necessities in China, while sundry articles of everyday use, such as iron pots and aluminum bottles, are considered daily necessities. But residents complain more bitterly about rises in the prices of vegetables than about rises in the prices of pots and pans. One reason for this is also because they buy vegetables more often. In a certain sense, frequency of expense reflects need even better than daily necessity.

Summing up production and consumption, it can be seen that perishable consumer goods correspond generally to residents' daily expenses and durable consumer goods correspond generally to their one-time expenses. We think that social "sensitivity" is greater to rises in the prices of commodities and labor that are related to residents' actual daily consumption. Thus, it is more reasonable to use this relevant wage income index. When

determining the particular form of wage indexing, as long as the two aspects of need and frequency of expense are considered, a goal similar to the plan to "link" wages to food prices can be fully achieved in a more perfect form.

In order to carry out the plan to link some wages to staff member and worker cost of living price index, the issue of working out the price index must be solved first, the key to which is determining the principles for choosing the weight factors. The method of working out a price index for residents' cost of living should be slightly different than that for working out a general price index. The selection of weight factors does not depend completely on residents' actual consumption, but rather on the aspects of need and frequency of expense. The need for certain commodities or labor refers to residents' least per capita need for them during a certain period of time. Frequency of expense refers to the frequency of residents' actual expenses during a certain period of time.

Based on the principle of "necessary yearly expenses," commodities and non-commodity items can be chosen to be linked to wages. First, staff members and workers' (including their dependents) least need for these "necessary expense" commodities and non-commodity items can be determined based on present living standards, and a series of weight factors can be formulated according to least need. Then, these items can be divided into groups and arranged in sequence according to their frequency of expense. The principle for group division is based on division into the five groups of "necessary daily expenses," "necessary weekly expenses," "necessary monthly expenses," "necessary semi-annual expenses," and "necessary yearly expenses." A set of weight factors can be derived from these five groups. When frequency of expense is high, the weight factor will be large, and vice versa. The weight factor for the price index should be a synthesis of least need and frequency of expense.

We think that linking some wages to a staff member and worker cost of living price index is an effective way to reflect the dual purpose of price compensation. Need reflects the first purpose and frequency of expense reflects the second purpose of price compensation.

#### **An Analysis and Appraisal of Successive Wage Increases and Price Rises**

Whether China's prices will rise a lot in the near future, and whether the situation of rising prices will worsen after wages are linked to prices and a vicious cycle of successive wage increases and price rises will occur, is an issue that people are universally concerned about and one that is crucial as to whether the policy of linking wages to prices can be put into effect.

Although China's economy keeps its resources within bounds, on one hand, shortages of energy, power, and raw and processed materials often cause enterprises to operate under capacity. On the other hand, there is a

problem of overstocking of commodities. Thus, there are different restraints on wage increases and cost rises that spur price rises for enterprises that produce the means of production than for those that produce consumer goods. If only the wages and costs of enterprises that produce consumer goods rise, overall price rises may be prevented by tax and profit concessions by public finance and digestion by the enterprises themselves. The crucial point is that wage increases and cost rises in enterprises that produce the means of production spur rises in the prices of the means of production, which spread to the production of consumer goods and are liable to cause general rises in the production costs of consumer goods and, thus, general price rises. This warrants the attention of policymakers.

Moreover, if the occurrence of successive wage increases and price rises after wages are linked to prices is a natural process, it cannot be seen as a vicious cycle. Since successive wage increases and price rises is a dynamic process, it can take two forms, converging or diverging. In converging successive wage increases and price rises, wages certainly spur price rises, but the rate of rise gradually tapers off, causing the wage increase and price rise rates to gradually become balanced. In diverging successive wage increases and price rises, the more wages increase the more prices rise, this happens in an accelerated form, wages "push" prices up and prices "pull" wages up, and wave upon wave of wage increases and price rises occur. Only diverging successive wage increases and price rises can be called a vicious cycle. The linking policy will be feasible if wages and prices can make a gradual transition to a condition of converging successive rises.

Furthermore, if successive wage increases and price rises occur after wages are linked to prices, there is still the issue of whether they can be controlled. Successive wage increases and price rises is a controllable social process. Linking some wages to staff member and worker cost of living price index can lessen the effect of wage increases on price rises, greatly decrease the possibility that a spiral of successive wage increases and price rises will occur, and help to control successive wage increases and price rises. China now has approximately 132 million staff members and workers. Calculating the linkage base as 72 yuan per capita a year, 9.5 billion yuan in compensation would be needed for 1988. If the net amount of currency put into circulation was increased 9.5 billion yuan, it is estimated that retail prices would rise about 2.8 percent. If some of this 9.5 billion yuan in income were transferred to savings, the effect on market prices would be somewhat less. Except for part of this 9.5 billion yuan of compensation that would affect the prices of necessities, the rest would affect the prices of general industrial consumer goods. These industrial consumer goods could absorb some purchasing power and alleviate the pressure on daily necessities. Necessities come mainly from agricultural sideline products. Therefore, after a cycle of price rises and wage increases, as long as

the prices of agricultural sideline products were relatively stable, wages would not go up so much again or "increase faster." Moreover, provided attention is paid to building bases to produce agricultural sideline products, developing production of daily necessities, controlling the prices of certain necessities related to the linkage index, and coordinating agricultural sideline products and means of production price reform with wage reform, the rate of increase of the cost of living price index will also be able to be slowed down.

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## AGRICULTURE

### Qian Zhengying on Revising Yellow River Planning

40110006 Zhengzhou RENMIN HUANGHE  
[YELLOW RIVER] in Chinese No 4, 26 Aug 88 pp 8-9

[Article by Qian Zhengying, Minister of Water Resources and Electric Power]

[Text of English Abstract] The core of planning on harnessing the Yellow River is to integrate the use and treatment of water resources, including promoting what is beneficial and abolishing what is harmful. The guiding ideology of planning should be placed on the actual situation of the Yellow River valley, and consider the prospects and overall plan of flood prevention and sediment reduction. Evaluation of soil and water conservation should emphasize turning poor and backward areas into prosperous ones, and sediment reduction on the lower reaches of the Yellow River should be viewed as a problem of a different nature. On this point, the type of soil loss area can not be divided only on the basis of how much sediment is transported to the lower reaches. Qian Zhengying also puts forward some opinions on project layout on the main river, improving existing systems of flood prevention, study on increasing the capability of sediment transport, planning of flow passage into the sea, and rational use of water resources of the Yellow River. The author suggests that departments related to harnessing the Yellow River and petroleum departments be combined to improve the harnessing and development of the Yellow River delta. The author also proposes improving the rational use of water resources through technical transformation to economize on water.

### Proposal To Reform Grain Management System

40060424a Chongqing GAIGE [REFORM] in Chinese  
No 3, 10 May 88 pp 132-134

[Article by Li Chang 2621 2490 et al: "Suggestions for Intensifying Reform in Agriculture and the Grain Management System"]

[Text] We wholeheartedly support the 13th Congress of the Communist Party of China in its policies expounding the extreme importance of China's agricultural strategy,

the necessity for overall rural economic development, and the need for significant growth in grain production over the next 10 to 20 years. After conscientiously studying documents from the 13th Congress and pondering the practicality of their proposals, we believe that if we are to implement the 13th Congress' strategic plan and achieve comprehensive agricultural development and further growth in grain yields, we must thoroughly reform our system of economic leadership.

In recent years, the Central Committee has pointed out many times that we must rely primarily on policy and secondarily on science and technology to develop agriculture. The 13th Congress has also appealed to the state, collectives, and individual peasants to increase inputs. In addition, it has emphasized that science and technology and scientific management are the decisive factors in improving economic returns. Consequently, agricultural development can be said to depend first on policy, second on science, third on inputs, and fourth on management. Right now the most important thing is to intensify reform in the rural economic management system in order to promote healthy agricultural development. The rural economic system can be characterized in two ways: One aspect is the basic system of rural economic operations and activities. The output-related system of contracted household responsibility implemented in the past few years has achieved marked success and become a focus of world attention, but still needs to be perfected. The second aspect is the system of central, provincial, and municipal (or prefectural) economic leadership over rural county villages. We have not reformed this system, and hence it is completely out of step with the demands of developing a commodity economy and agricultural modernization. In particular, in recent years grain production has stagnated, conflicts have arisen between supply and demand, and we have not yet been able to halt serious environmental degradation. If we do not continue rural economic reform, it will be difficult to go beyond the two benchmarks of 900 billion and 1 trillion jin of grain by 1990 and the end of the century.

The corruption in Chinese agriculture, particularly in grain production and in the management and leadership system, lies in the multi-departmental hierarchical administration of central and local governments. First of all, in this method of administration, often ministries of the central government pass down relevant decrees and manpower, finances, and materials to provincial agencies, and cut up the links among departments and regions. There is no unified strong leadership, nor is information feedback handled in a timely manner. Second, grain production and management are still substantially subsumed under directive planning; production, supply, and marketing are separate; procurement prices are low; peasants are unenthusiastic; and we cannot build a vigorous grain industry. Third, under the highly centralized administrative system in each department, as far as the grain problem is concerned the mentality of eating out of one big pot persists at the various levels of

local government. Many localities feel that self-sufficiency is the standard for grain production, but lack the power to boost commodity grain yields, prevent the loss of arable land, or realize the potential for increased grain production. Fourth, agriculture and grain production and management systems hold no appeal for scientific and technical personnel, so we cannot integrate science and technology with production throughout the overall system or its various branches. Simultaneously, a shortage of funds has resulted in disrupted networks, interrupted lines, and scattered personnel in the agricultural science and technology systems of many areas.

We feel that using the methods of systems analysis, agricultural and grain production and management is an enormously complex system of social engineering. That is to say, it is economic systems engineering that balances grain supplies and social demand in accordance with economic laws; and scientific and technological systems engineering that employs science and technology to solve production problems; and management systems engineering that ensures grain supplies and adjustments between regions at different administrative levels. The key to the current grain problem lies in the fact that, although we have grain production and management departments on an enormous scale, we have not developed for grain a comprehensive system of social systems engineering under indirect government supervision.

We recommend that, in conformity with the spirit of accelerated reform characterized in the 13th Congress, the central government make a resolution to reform the agricultural leadership system; and establish a system of complex social systems engineering under indirect government supervision, that functions in accordance with economic laws, relies on scientific and technological progress, develops grass-roots collective and peasant initiative, and makes comprehensive agricultural development and increased grain production possible. Therefore:

1. We should establish state, provincial, municipal (or prefectural), and county agricultural (or rural) economic commissions that feature centralized rural economic management; integrated grain production, supply, and marketing; and coordinated input and output. In this way, we can change our multipronged leadership structure and passive management and develop the overall functions of the agricultural and grain production and management systems. The grain management responsibilities of the state agricultural economic commission would be primarily to exercise macroeconomic controls in regulating production, distribution, and marketing plans and in adjusting procurement prices and supplies of relevant production materials (subject to State Council approval). As the political system is reformed and department functions change, the relevant organs of the State Council can merge and simplify departments or retain their organizational systems as component parts

of the agricultural economic commission. Provincial, municipal (prefectural), and county agricultural economic commissions would have similar responsibilities.

2. We should transfer grain production powers to lower levels, contract with each region separately, and enhance local responsibilities. China encompasses a vast area, and economic development is unbalanced. There are great disparities between different regions of the country in the conditions of agricultural production and in the grain surpluses and deficiencies. Experience proves that grain production and distribution cannot be well managed when both are concentrated under the administration of central government departments. Once established, the state agricultural economic commission would be responsible for supplying grain for national defense, disaster relief, and strategic reserve purposes, as well as to help achieve a balance between supply and demand in exceptionally large cities like Beijing, Tianjin, and Shanghai and in grain-deficit provinces and autonomous regions. Each province, autonomous region, municipality (or prefecture), and county must take over full powers of grain production, procurement, and marketing for the region under its jurisdiction. The central government's job of contracting to transfer grain into and out of the various provinces, municipalities, and autonomous regions would be fixed and unchanging for several years. Of course, at every stage of government, the higher levels would still have an untransferable obligation to help lower levels achieve balanced grain production and marketing.

So as to meet the needs of agricultural development, central and local authorities must also work together and share responsibility for the production and supply of agricultural production materials such as chemical fertilizers, pesticides, mulch, diesel fuel, and so forth. They must also vigorously advocate and encourage the use of night soil, methane-generating pit sludge, green manure, biological controls, and other applicable and inexpensive, but advanced, techniques to make up for insufficient supplies of chemical fertilizers and pesticides.

3. We should establish state and local grain (or agricultural) production management companies to make effective use of state and local grain (or agricultural) investment and credit, and to take responsibility for managing grain procurement, storage, processing, sales, importing, and exporting. These companies would receive state and local investment, have autonomous management, take full responsibility for their own profits and losses, and use profits to support further grain reproduction.

4. We should help grass-roots units perfect a bi-level management system. Now that we have implemented the output-related system of contracted household responsibility throughout the Chinese countryside and essentially solved subsistence problems, we urgently need to help the grass-roots levels (administrative villages or large

natural villages) develop centralized management functions. Given public land ownership and household contracting, the grass-roots levels in vast agricultural districts must continue to emphasize agriculture, but they must also pursue diversification and township enterprises on the side. They must divert more labor from farming, use industry to develop agriculture, increase inputs, expand the scale of farming operations, improve economic returns, and methodically pursue capital construction and afforestation projects on farmland. In this way, they can create a beneficial cycle that develops township enterprises out of agriculture and uses township enterprises to promote agricultural modernization. Thus we can gradually achieve industrialization in rural production, and commercialization, socialization, and modernization in agricultural production. There are some advanced village, town, and township enterprises that have become mainstays of the rural economy and increased agricultural inputs, expanded the scale of operations, and spurred agricultural modernization. It is essential for local governments to establish and develop certain backbone enterprises, but they must guard against neglecting township enterprises, which employ hundreds of thousands of people and possess enormous potential. Local governments must invest more in the countryside in order to maintain reserve strength for agricultural development and to lay a foundation for a future economic boom.

5. We should establish and perfect a system in which agricultural production is integrated with science and technology. China is still in the initial stage of socialism. In the countryside education is behind the times and many resources are undeveloped, but in urban areas there is considerable scientific and technological capability. Consequently, we must establish a mentality dedicated to using science, technology, and scientific management to promote agriculture. We also need to set up a corresponding system of organization and engage different grades of long- or short-term, full- or part-time urban scientific and technical personnel to take on the task of rural development consultancy and scientific and technical services. We must create for them living conditions equivalent to those available to scientific and technical personnel in other professions. We need to encourage research organizations and institutions of higher education to serve agricultural development, and we must support the growth of specialized rural technical associations. To restrict leaders in certain areas from implementing "short-term economic activities," the central government must stipulate that within 3 years the provinces, municipalities (or prefectures), and counties must act in the spirit of the 13th Congress to formulate plans for economic and social development in their particular areas by the end of the century. After the local People's Representative Assemblies and the higher levels of government approve these plans, we must insist on their implementation, and they should not be affected by leadership changes.

To strengthen and develop a system in which agricultural production is integrated with science and technology, we

must set up a network to train qualified scientists, thus fostering a large cadre of local high-level and mid-level specialists and rural technicians. Now China's institutions of higher education are clustered in large cities and provincial capitals. In addition to training high-level specialists oriented toward municipal (or prefectural), and county employment, the municipalities (or prefectures) and counties themselves must establish colleges, universities, and secondary technical schools in diverse fields. They can also rely, respectively, on existing teachers' training schools, schools of education, or secondary normal schools to add specialties in industry, agriculture, and management for training the necessary technologists, and to offer various specialized training classes for cadres on the job. Below the county level we can establish training centers in large towns or rely on vocational secondary school credits to train rural technicians and impart applicable and advanced technical knowledge. These are effective measures for alleviating the shortage of qualified rural scientists and technologists. Of course, to enhance the quality of laborers and lay a firm foundation for secondary and higher education, we must also gradually implement a 6-year or 9-year system of compulsory education, depending upon rural economic development.

6. We should make agricultural and grain production policy decisions more democratic and scientific. Agricultural and grain production management involve the broad fields of social science and natural science. In order to make policy decisions more scientific and avoid mistakes, the various levels of government should absorb and adopt suggestions and ideas proposed by social scientists, natural scientists, and practical workers. To this end, we suggest that the relevant social scientists, natural scientists, and practical workers in the central government and in the provinces, autonomous regions, municipalities (or prefectures), and counties unite into a comprehensive agricultural and grain production consultancy organization. Prior to the government's annual year-end rural work conference, this consultancy organization would listen to the government's report on agricultural and grain production efforts and report its suggestions and ideas to that same government level.

We feel that if the above six suggestions for reforming the agricultural leadership system can be approved and implemented, they will bring about stable growth in Chinese agriculture and grain production and more vigorous development for the diversified economy and township enterprises. They will also supply the essential conditions necessary to realize China's strategic end-of-the-century objectives, and establish a solid basis for achieving agricultural modernization in China in the first half of the next century.

12510

**Guangdong Ships Fertilizer to Hunan**  
40060046b *Changsha HUNAN RIBAO in Chinese*  
5 Sep 88 p 1

[Excerpt] In August Guangdong Province shipped 60,000 tons of chemical fertilizer by train to Hunan Province.

### **Hebei Vegetable Area**

40060045d *Shijiazhuang HEBEI RIBAO in Chinese*  
9 Sep 88 p 1

[Excerpt] As of 15 August, Hebei Province had sown 3.1 million mu to vegetables.

### **Heilongjiang Farm Product Prices**

40060046d *Beijing NONGMIN RIBAO*  
*in Chinese* 26 Aug 88 p 2

[Excerpt] According to a survey (1 August) of 75 urban and rural farm markets in 28 cities and counties in Heilongjiang Province, the average price for grain in urban markets was 1.167 yuan per kilogram, a 13.5 percent increase over the same period in 1987. The average price for grain in rural markets was 1.195 yuan per kilogram, a 17.9 percent increase over the same period in 1987. The average price for vegetables in urban markets was 0.57 yuan per kilogram, a 12 percent increase over the same period in 1987. The average price for vegetables in rural markets was 0.626 yuan, a 22.3 percent increase over the same period in 1987. The price of pork per kilogram in urban markets was 5.117 yuan and 5.090 yuan in rural markets; the price of boneless pork per kilogram in urban markets was 5.491 yuan and 5.453 yuan in rural markets, increases of 43.9 percent and 47.8 percent respectively; and the price of eggs per kilogram was 4.461 yuan in urban markets and 4.407 yuan in rural markets.

### **Heilongjiang Tobacco Area**

40060045e *Beijing JINGJI RIBAO in Chinese* 4 Oct 88 p 1

[Excerpt] This year Heilongjiang Province has sown 1 million mu to tobacco, 2 million dan of tobacco will be procured, and 1.4 million dan will be transferred throughout China. Heilongjiang has 130 million mu of cultivated land and plans to expand the tobacco area without harming the grain area.

### **Hunan Hybrid Rice**

40060046a *Changsha HUNAN RIBAO in Chinese*  
2 Sep 88 p 1

[Excerpt] This year Hunan Province has sown 33 million mu to hybrid rice, and has transferred 10 million kilograms of hybrid rice seeds to other provinces. Since 1983, Hunan has reduced the sales price of hybrid rice seeds three times, the original sales price of 3 yuan per kilogram has been lowered to 2.4 yuan.

### **Sichuan Plans 1989 Autumn Grain Area**

40060046c *Chengdu SICHUAN RIBAO*  
*in Chinese* 23 Sep 88 p 1

[Excerpt] Because of natural disasters this year, Sichuan Province plans to sow 43,750,000 mu to autumn grain in 1989, an increase of more than 1 million mu over 1988; and more than 12 million mu will be sown to rape.

**Description of Spratly 'Provocation'**

40050050 Beijing JIEFANGJUN SHENGHUO (PLA LIFE) in Chinese No 8, 13 Aug 88 pp 7-9

[Excerpts] At the beginning of the Dragon Year, PLA Navy Formation 502 left Guangzhou Bay, crossed the sea near the Qizhou Islands, said farewell to the Xisha [Paracel] Islands, and went in force directly into the South China Sea.

The formation commander was Chen Weiwen [7115 0251 2429], chief of staff of a certain unit.

On that day, while conducting scientific observation in China's own territory—the Nansha [Spratly] Island area—we faced Vietnamese vessels ready for battle, while not one of our missile destroyers and missile frigates carried missiles. Launcher covers were partly open and the launchers were empty inside; this was seen by the Vietnamese as well as by aircraft of unidentified nationality.

When Ship A left port, it only carried 10 days of provisions, but the force was now at sea for the nineteenth day. The supply ship could not pull along side the force in the high wind and big waves which caused the ships to roll 40 degrees. For 10 days the crew had not brushed their teeth or washed their clothes.

Ship B had little fresh water left; Captain Sun Yubao [1327 3768 1405] said, "This water is to be used in the machinery; without my order, no one is allowed to touch a drop" When asked how were they to cook rice, he replied, "Use sea water."

Political commissar of the ship was Mao Juncheng [3029 6511 2052].

As they were eating, an alert sounded. The Vietnamese soldiers had begun to take the reef!

At this time, the villains among the Vietnamese authorities reported on the situation, publicly slandering us with "China has violated the territorial sovereignty of Vietnam," wanting China to "take responsibility for any consequences which may ensue."

Bandit logic! Chinese ships are patrolling and observing Chinese marine territory, and the Vietnamese authorities publicly voice opposition!

Let the ships of Han Dynasty Emperor Wudi in the 2d Century BC act as proof! Let the Tang porcelains, smoke from Song kitchens, and ancient wells of the Yuan and Ming be proof!! Let Zheng He Reef, Qu Yuan Reef, Qing ships, and merchant ships be proof!!!

Cai Jianming [5591 1696 2494] was the captain of Ship D.

Hua Yang Reef. 8°54'N, 112°51'E.

9°42'N, 114°16'E, on Chi Gua Reef.

On 14 March, the observation party was led by political commissar Li Chuqun [2621 2806 5028]. At daybreak, the Vietnamese came.

Vietnamese armed transport Ship 604, carrying 38 special troops and 70 engineers, started to take the reef under protection from Landing Craft 505 with a displacement of 4,080 tons.

At the bow of Ship 604 were two machine guns; two 40mm RPGs poked out from the hold and fixed their sights on our flagship command platform guarding the reef.

The eight 40mm guns on Ship 505 were ready to fire!

Ship 604 let down a sampan which bobbed along and started to land on the reef, and the brazen armed provocation began!

Please take note: this was Chinese territory, at 9°42'N, 114°16'E, and the hour was 0625 Beijing time.

After landing on the reef, the Vietnamese immediately planted the Vietnamese flag and two submachine guns protecting it were leveled at the Chinese observation party. The others started to transport construction materials with the intent of building a permanent fortification on Chi Gua Reef.

Lin, an aide, shouted in Vietnamese: "This is Chinese territory! Please leave Chi Gua Reef immediately!"

After three requests, the Vietnamese still acted as though they had heard nothing. One of the lowly Vietnamese soldiers then dropped his underpants in front of everyone and began to urinate at the Chinese. The other Vietnamese accompanied him with applause and bravos, and there was a minor uproar on Chi Gua Reef.

Such insulting provocation!

How could we allow China's sacred territory to be sullied by these bandits!

Li Chuqun ordered: "Advance on them! Force them back!"

Waving their arms, the 58 Chinese [scientific] observers formed a semicircle and rushed at the Vietnamese.

At 08hr47'10" Beijing time, the silence of Chi Gua Reef was broken by the sound of the Vietnamese submachine guns.



**Future Trends in Conventional Weapons**  
40050321 Beijing XIANDAI BINGQI [MODERN  
WEAPONRY] in Chinese No 4, 1 Apr 88 pp 1-6

[Article by An Fohua 1344 0154 5478: "Heavy Weapon Trends Prior to Year 2000"]

[Text] Summary: Modern Weaponry emphatically presents the major problems in conventional weapon systems prior to the year 2000 and the answer lies in technological advancement and developmental trends.

**I. Major Problems With Current Conventional Heavy Weapons and Relying on Technological Advancement for Answers**

**1. Main Problems That Exist**

Conventional heavy weapons now have a combination of powerful warheads, accuracy, and effective ranges that make it difficult to conduct in-depth attacks. Up to now the ammunition of conventional heavy weapons has been set up for one on one, even with a direct hit an artillery shell or missile will still only destroy one target. This makes it difficult to deal with a large number of armor vehicles or mass aircraft attacks. The C<sup>3</sup>I [command, control, communication and intelligence] system's capability to handle multiple targets, ability in low altitude detection, anti-jamming, survivability, capacity, and speed is still not sufficient for the needs of future in-depth three dimensional warfare. Many combat platforms, such as aircraft, ships, tanks, and combat vehicles need to be improved and integrated with future deep attack weapons into an organic whole. Only after this is done will these weapons be suitable for the needs of in-depth mobility and deep attacks.

These are the major problems facing conventional heavy weapons systems. There is a real possibility that these problems can be solved using advancements in weapon technology and manufacturing techniques.

**2. Relying on Advancements in the Technological Base**

Future conventional heavy weapons cannot only be developed using traditional weapons technology but must be developed with a series of new technology, materials, and techniques along with the day by day perfection of the technological base.

A. Extensive use of integrated circuits should be the nucleus of microelectronics technology and computers, and microprocessors should be the foundation for information processing technology so a technical foundation can be laid for conventional weapons and ammunition.

B. Technology concerning accuracy, control, and guidance needs to be improved to provide conventional heavy weapons with targeting precision and the capability to operate in all weather conditions. This technology could enable guided missiles, shells, bombs, and torpedoes to accurately hit tanks, aircraft, ships, and radar

stations. Furthermore these weapons would not be hampered by distance or weather when used within their effective ranges. This would give conventional heavy weapons the real possibility of conducting deep (50-300 km) attacks.

C. Composite ammunition, its release, and guidance of individual components. For example the United States produces a surface-to-surface composite missile, each main warhead can carry between 18 and 24 individually guided sub-missiles. Its range is over 200 km and can handle 6 or more tanks at one time.

D. Missile guidance technology. Because infrared, laser, and millimeter wave guidance work at very high frequency, the radio and its electronic system can be made very compact, light, and sturdy. It can be installed in projectiles that have little space and which are used in extremely harsh operating conditions. These systems can withstand the great overload during firing and their accuracy and ability to differentiate far surpasses that of microwave systems. Integrated with microprocessors these can become a system "pitting one against many."

E. Technology of modern platforms. Only by integrating conventional heavy weapons with modern aircraft, tanks, combat vehicles, and ships into an organic whole can in-depth maneuvers and attacks be carried out. The effect on conventional heavy weapons by the development of these platforms would be like putting wings on tigers. We need to make progress in low altitude mobile assault aircraft and cruise missile technology, adopt advanced fire control systems, new types of alloy compounds and drive systems for armor, and adopt highly mobile tank and ship technology.

F. Detecting and fixing locations of fast moving targets over a large area and C<sup>3</sup>I technology. The development of multi-functional control radar will greatly increase the detection and tracking capabilities for multiple targets; the development of doppler radar will provide early warning and low altitude sighting and firing capabilities which will greatly improve our ability in low level combat and air to ground attacks; the development of side looking radar will greatly increase the ability to detect and differentiate targets over a large area.

G. Special ammunition technology. Under many situations the integration of modern delivery (firing) systems and modern ammunition will effectively satisfy the needs in the future combat environment. For example, rocket shells with increased ranges, specialized ammunition for aircraft runways, multiple warhead carrying shells along with their release systems and self-forging fragment projectile armor shells for attacking armor.

H. Technology concerning new materials and their processing. Complex materials such as fiber reinforced materials that include resin based, metal based, carbon based and ceramic based material; material that absorbs



and transmits electromagnetic waves, and the development of metal and metal alloys and their processing technology will have a major effect on the composition and performance of aircraft, tanks, naval ships, armored vehicles, satellites, missiles, artillery shells, and torpedoes.

## **II. Heavy Weapon Trends Prior to the Year 2000**

### **1. Ranges, Multiple Target Capability, and Accuracy of Attack Weapons**

Major military targets in deep (50-300 km) operations and the mission of rear units held in reserve can now only be handled by tactical nuclear weapons and tactical aircraft. The use of the afore-mentioned weapons are limited by many factors and it will be difficult to satisfy the requirements of the future air-land battle with the current stock of weapons. Therefore, the rapid development of a tactical missile with individually controlled sub-missiles for combat units is nearing completion.

### **2. Coordinating Weapons Into a Group To Raise the Overall Effect of the Weapons**

No perfect weapon exists that is capable and better than other weapons under all conditions. In order to deal with a closely coordinated attack by various types of weapons, we must rely on various weapons integrated into an organic unit to be most effective. This group type of weapons can be clearly seen in the developmental trends of air defense, antitank, and antiship weapons.

Air defense is still a three in one system consisting of aircraft (in addition to traditional fighters this also includes the new fighter helicopters that are appearing), surface-to-air missiles, and AAA. Fighter aircraft are mainly used for defense outside a 100 km radius to take advantage of their maneuverability, range, and types and numbers of weapons they carry; within 5-100 km various surface-to-air guided missiles are relied upon; AAA and short range surface-to-air missiles are used for defense at 4 km and closer. In actual deployment these weapons are arranged in an overlapping fashion.

Through the year 2000 there will be three types of surface-to-air missiles, a long range medium-high altitude series such as the U.S. "Patriot" and the SA-12 of the USSR; a short- to medium-range, low-medium altitude series like the improved U.S. "Hawk" and Soviet SA-10; and a short-range low altitude series that will consist of vehicle mounted and hand held versions. Examples of vehicle mounted are the improved "Chaparral," "Roland," and SA-13, examples of the hand held version are the "Stinger" and SA-14.

Larger caliber field air defense guns are being eliminated. AAA for divisions are mostly 30mm to 40mm and those for regiments are between 20mm and 25mm. There will be further progress made in consolidation of artillery shells and guns, air defense guns, and antitank missile systems. These systems will become a basic

component in future air defense. This consolidation will result in better air defense fire control and will simplify equipment and rear services supply for units.

By the year 2000, main force fighters will have look-down, shoot-down capability, and the capability to attack multiple targets. At high altitude these aircraft will travel at about mach 2.4 and mach 0.8 to 0.9 at low altitudes (will be able to travel at supersonic speeds for short periods), have a functional ceiling around 2,000 meters, be able to withstand a force of 8 to 9 g, and have a combat radius between 600 and 1800 km. Mig-31 and F-14 aircraft can fire 4 to 6 air to air missiles simultaneously when attacking multiple targets. There are three types of air to air missiles, short, medium, and long range, the ranges of these missiles are 10 to 20 km, 20 to 100 km, and over 100 km respectively.

Antitank weapons should be a combination of missiles and artillery, weapons having long, short, and close ranges should be colocated so land and air weapons can fight in coordination. Very long range (30-40km) and super long range (over 150km) antitank weapons will appear and there will be advances in carrier warheads and individually controlled sub-missiles. These advancements will provide antitank weapons with long range accuracy and the ability to "pit one against many." The range of ground line of sight antitank weapons will remain close out to 5km. Rapid progress is also being made in helicopter carried antitank weapons. Tanks at a range over 2km are mostly dealt with using antitank guided missiles, long range guns, and vehicle carried weapons; at 2,000 to 5,000 meters, antitank guns are used (guns of tanks) along with short range antitank missiles; within 500 meters either antitank rocket launchers or rifle grenades are normally used. Antitank mines and obstacles will remain an important means to counter tanks through the year 2000.

Antiship weapons will consist of missiles, torpedoes, bombs, and ship guns. These airborne, surface, and underwater weapons are to be used as a coordinated system. At long ranges ship-to-ship and air-to-ship missiles are used. At mid to short range in addition to missiles and torpedoes, bombs and ship guns are also used. Long range guns with guidance systems have become an especially effective antiship weapon.

### **3. New Multiple Warhead Shells and Guided Artillery Shells**

A. Rocket launcher fired multiple warhead munitions. In the mid 1970's the United States began developing a general purpose rocket support system, the result was the development of an advanced munitions delivery system. Following its development, the countries of NATO adopted it as a standard NATO rocket launcher to be developed and it was termed the Multiple Launch Rocket System.

This 12-tube rocket launcher's projectiles weigh 307 kilograms and have a range of 35km. It is installed on a 25 ton tracked vehicle that also carries the loading apparatus. The vehicle has 2 container type launching equipment (used for transport and storage) with 6 in each container. In order to have antiarmor capabilities and high accuracy, these NATO countries have developed a main rocket that has individually controlled sub-munitions for use in this rocket launcher system. They plan to jointly produce 600,000 of the above weapons. Each main rocket is loaded with 6 sub-munitions. The sub-munitions utilize millimeter-wave radar and have a microprocessor for processing incoming signals and guidance controls. It is estimated that this weapon will be deployed to units starting in mid 1990. This rocket launcher can also fire scatterable antitank mines and chemical agents.

B. Howitzer-fired multiple warhead antiarmor shells. In the present U.S. plans for developing precision guidance munitions there is one extremely important plan called "Search and Destroy Armor," this plan is called "SADARM" for short. This plan was to develop a howitzer-fired 203mm and 155mm antitank multiple warhead shell. These warheads would use an IR and millimeter-wave radar tracking system and self-forging fragment projectiles to pierce the top armor of tanks. The main warhead has no guidance, its purpose is to just deliver the sub-warheads to the area over the targets and release them at the correct time. After the sub-warheads are released their parachutes cause them to spin which activates the IR that scans the ground below. When the sub-warhead reaches a low altitude the millimeter-wave radar sends out a detonation signal that causes an explosive charge to detonate giving the self-forging fragment projectile sufficient motive force to destroy the target. This detonation point is normally 100 to 300 meters from the target. The thickness of armor it can penetrate is equal to the warheads diameter. The materials most often used for these warheads are copper, tantalum, and depleted uranium.

C. Interchangeable and powerful "(Sijite)" shells. This type of ammunition developed by the U.S. (Aweike) Company is fired by detection equipment. It uses IR to detect targets and millimeter wave radar to control altitude detonation. The IR target signal produced by the search sensor passes through the microprocessor and becomes an IR image. New signal processing technology enables these shells to utilize this image and lock on to the weakest point of a target rather than simply locking on to the hottest point. Application of the "(Sijite)" shell can be in surface to surface tactical missiles and in various aircraft delivery systems.

#### **4. Tactical Antimissile Weapons Will Receive a High Degree of Attention and Will See Rapid Progress**

At present the basic way to solve this problem is by the following methods. Active defense: Use one's own antimissile weapon systems for tracking and destroying

incoming missiles. End intercept type antimissile weapons will appear. This is an important area of antimissile weapon research now and will continue to be for some time. In addition, laser weapons and artillery using electromagnetic trajectories also have potential for use as antimissile systems.

Destroy opposing-force deep-attack weapons in place: Search and fix the location of enemy mobile guided missile launchers so they can be destroyed by our firepower before they can be used.

Passive defense: Use reinforced defense works, dispersment, mobility, camouflage, and deception (including electronic countermeasures) to make it difficult for the enemy to attack.

A. Tactical ballistic missile defense systems. The United States is the first western country to conduct planning and conception in this area. In general it can be divided into near-term planning and long-term conception.

Near-term planning: This is based on improving the U.S. "Patriot" air defense missile so under special situations it can be used as an anti-ballistic missile weapon.

Long-term conception: Development of a system to deal with new types of Soviet tactical ballistic missiles over the next 10 to 20 years is still in the research and demonstration stage. The most important thing will be to understand the danger and prospects of future tactical ballistic missiles. Dealing with this threat on the basis of needed technology and cost we should conduct combined testing and actively carry out development. The United States is going along a path of basing research in the United States and cooperative development with the NATO countries of Western Europe.

The Soviet SA-12 surface to air missile system to a certain extent can be used as an anti-ballistic missile weapon. The USSR is also searching for and developing a method to deal with tactical ballistic missiles.

B. Defense against tactical cruise missiles. Because cruise missiles have a small radar profile and can fly in secrecy they present problems for air defense. The major developments in cruise missile intercept systems are as follows:

Antimissile gun systems: This is mainly used against cruise missiles and plays a big role against low-level winged missiles. This weapon is normally in 20mm to 40mm caliber, has multiple barrels (4 to 12 barrels), a rate of fire between 3,000 and 4,200 rounds per minute, and its most effective range is from 1.5 to 4km. The ammunition it uses is the specially developed high muzzle velocity (1,000 to 1,470 meters per second) plated armor piercing shell with a penetrator made from high density depleted uranium and tungsten.

Tactical antimissile missile systems: These are systems developed by Western nations to counter cruise missiles. Included in these are the U.S. RIM-116A "(lamu)," the French "(ketaer, neiwaer)" 8S missile system, and Great Britain's improved "Sea Wolf" missile system.

#### **5. The Multipurpose Combat Capabilities of Deep Sea Offensive Naval Weapons Will Be Raised**

The future three dimensional naval warfare on the sea, surface, subsurface, and in the air will be characterized by great maneuverability and long range attacks. This will require surface ships to have antiship, air defense, antisubmarine, and land attack capabilities.

By the year 2000 there will be one big development in U.S. and Soviet surface ships, that being the displacement of ships will increase and the number of nuclear capable vessels will increase. With the use of (kaifula) and new structural materials and armor, the ships defensive protection will be greater. In addition to gas turbines it is hoped that a combined gas and steam turbine engine can be used in ships. The United States, if development continues smoothly, will start using this type of engine in its 9th "brooke class" frigates.

One major trend is the integration of vertical firing and C<sup>3</sup>I systems that gives ships the ability to conduct simultaneous antiship, air defense, and antisubmarine operations. Using the United States as an example, its newest "Ticonderoga class" cruisers and "Brooke" class guided missile frigates are all equipped with the "aegis" weapon system. This is a system mainly geared for air defense but integrates detection, tracking, command, and fire control of air defense, antiship, and antisubmarine operations into one fast responding weapon system for the entire vessel. It can detect surface targets up to 40km away and aircraft up to 400km. It also has anti-jamming and attack capabilities.

The above mentioned cruisers and frigates that entered production in 1980 and 1985 respectively are not only equipped with aegis but also with the vertical firing system.

The Soviet nuclear powered "Kirov" class cruiser is equipped with a vertical firing system and has the capability to attack multiple targets.

Nuclear attack submarines under construction such as the U.S. Navy's new SSN-21 being developed for the 21st century will have a displacement exceeding 18,000 tons, heavy firepower (cruise missiles and advanced torpedoes), a low noise level, very good detection ability, and be a multiple use vessel (antisubmarine, antiship, and land attack).

#### **6. Tactical C<sup>3</sup>I Systems Are a Prominent Area Under Development**

A. During combat it will be necessary to have an airborne C<sup>3</sup>I system for deep maneuvers and attacks. In order to overcome the limits put on ground detection equipment by the earth's curvature and to discover and track enemy ground targets, low level attack aircraft, and cruise missiles while directing our weapons in accurate fire on these targets, it will be extremely important to have an airborne C<sup>3</sup>I system. Using the U.S. airborne warning and control system equipped E-3A/B.C, targets can be detected more than 400km away with its pulse radar and can simultaneously track 600 of these targets while directing up to 100 of our intercept aircraft against these targets. By using this aircraft's various terminals, contact can be maintained with all 3 services' air defense and related command systems.

B. By various networks and usage, space technology can be used as direct support for combat operations.

In order to ensure the effectiveness and survivability of C<sup>3</sup>I systems and to adapt to the complicated and intense situation on the future battlefield, various forms of networks and usage must be developed for C<sup>3</sup>I systems.

The major and most often used C<sup>3</sup>I system for surface systems will still be land based. The advantage of these systems is that they can be operated around the clock. In comparison with aircraft and satellite system which are limited by weight and size, these systems are very effective, easy to use and maintain, and generally speaking, less expensive than their functionally equivalent airborne counterparts. Many ground systems are limited to line of sight and their detection range is effected greatly by the targets altitude. This makes it difficult to satisfy the needs of in-depth and three dimensional warfare. How to enlarge the area covered by ground based C<sup>3</sup>I systems has become a very real problem. Super long range radar and battlefield distant observation systems are two very important areas of development in this area.

At the present time the United States is building a worldwide long range radar net. After many years of development and testing this radar is now entering into the functional stage. This radar can detect aircraft flying below the ionosphere, ships at sea, and cruise missiles over land, its effective detection range for aircraft is currently between 900 and 3000km.

Another important area of development for ground based C<sup>3</sup>I systems is the battlefield observation systems. In addition to the United States and the USSR, the United Kingdom and West Germany are also developing a battlefield observation system. the U.S. "(lunbasi)" is one of these systems. This system consists of unmanned groundwave, electromagnetic, vibration, pressure, and IR measurement equipment, data relay, and observation equipment. During combat this system will be deployed

to areas the enemy is expected to pass through or assemble at. It will be able to pass data about the enemy when their personnel or vehicles pass through that area.

**Airborne systems.** In addition to the previously mentioned AWAC system and the combined observation and target attack radar systems, the United States is also currently developing new types of airborne surveillance systems like the tactical reconnaissance system installed in the TR-1 aircraft that has synthetic aperture radar, various types of passive monitoring systems, communications, electronic warfare systems, and display and control systems. Initial testing of combat capabilities of this system is nearing completion.

**Another area of development is that of detection drones.** They can be widely used for reconnaissance, monitoring, directing artillery fire, combat evaluations, and electronic warfare. It is estimated that by using the "skyhawk" drone to conduct artillery fire control and laser directing, the effectiveness of divisional artillery could be raised by 300 percent.

**Space systems.** Using C<sup>3</sup>I equipped satellites to support combat operation and integrating them with long range precision weapons could vastly increase the effectiveness and threat posed by conventional weapons.

The United States and the USSR are both developing and deploying guidance satellite systems such as the U.S. "worldwide guidance satellite direction finding system" that has three dimensional guidance, precise position fixing, and a long life span. This system can provide precise three dimensional worldwide position fixing for aircraft, ships, tanks, infantry units, guided missiles, and low orbit satellites in all types of weather, with three dimensional speed and exact times. This will not only enable aircraft, ships, and tanks of all 3 services to know their exact location at all times but also increase the precision of locating targets and their position in relation to our own weapon systems, increase the accuracy of fire, bombing, improve the navigation of aircraft and ships, and the accuracy of photo reconnaissance and mapping.

**C. Actively develop interchangeable communication gear.** In order to ensure the necessary transfer of information between the services, interchangeable communication gear needs to be developed so that the 3 services' C<sup>3</sup>I systems can be linked together. In 1981 the United States officially began development of the "combined tactical information distribution system" [JINTACCS]. This interchangeable system was developed to solve the problems in information transfer.

#### **7. Chemical and Biological Weapons Will Become a Major Part of Conventional Weapons**

Before the year 2000 the United States will complete its replacement of current chemical munitions with binary chemical weapons. Binary chemical weapons are fairly safe, their handling costs are low, and most chemical

plants can produce them. The drawbacks of these munitions are that they are complex and they don't have complete reactions. A key area in binary chemical munition development by the United States is IVA2, a binary moderately volatile agent. By the year 2000 the U.S. forces will have a huge store of binary chemical munitions, with the total amount reaching 25,000 to 30,000 tons.

Many of the U.S. heavy weapons can use chemical weapons. During the early 1990's three major types of chemical shells and rockets will be produced: The M687, a 155mm artillery fired binary sarin shell; the BLU-80/B "bigeye" large type binary VX guided shell; and the 228.7mm MLRS fired XM135 binary chemical warhead.

The USSR is using chemical MRLs as its main chemical weapon system. The Soviet EM-21, a 122mm 40 tube rocket launcher, the EM-27, a 220mm 16 tube rocket launcher, and the EM-14 rocket launcher, along with the SS-21, SS-22, SS-23, and SS-20 guided missiles are all capable of carrying chemical warheads. The payload compartment of Soviet chemical rockets are large, each can carry several hundred bomblets with each bomblet carrying several hundred grams of chemicals that will spread over a total area of 1 square km.

#### **8. Combining Heavy Weapons and Combat Platforms Into One Balanced Entity So They Can Have Mutual Development**

The overall performance of a weapon system doesn't only depend on the weapon and platforms individual performance but also on how they work together. These weapons will advance and interact with each other. Only based on a nation's technology, resources, traditional planning, and actual battlefield conditions can target goals be broken down and distributed for the most economic, effective, and reasonable realization of the overall goal. This is extremely important in the "overall concept."

In modern weapon systems one type of weapon can be mounted on several types of platforms. For example, the advanced medium range air to air guided missile developed by the United States. It can be mounted on many various types of NATO platforms. In the same way one type of platform can mount many different types of weapons, like the army tactical guided missile systems and the MLRS being developed by the United States use the same launch (also the transport) vehicle. There is also a trend towards developing one chassis for an entire class of vehicles. This requires weapons and platforms, as far as possible, to be interchangeable, standardized, have the same specifications, and serialized. In this way not only can unnecessary repetition be avoided and operating effectiveness be raised but it can also reduce expenditures and rear service supply.

**Rationale for Adopting Civilian Personnel System**  
40000001 Moscow MOSCOW NEWS (Weekly) in  
English No 37, 18-25 Sep 88 p 5

[Article by Xu Jingyue: "Reforming the Chinese Army"]

[Text] One of the most significant reform programmes of the Chinese army in 1988 is the adoption, and implementation, of the non-military personnel regulation.

The "Non-Military Personnel Provisional Regulation of the Chinese Liberation Army," which was approved by Central Military Commission Chairman Deng Xiaoping, is the first such regulation in the history of the Chinese army. In accordance with this regulation, a large number of army officers on active duty will become non-military staff members.

This action is regarded as one of the most important elements in restructuring the army's officer system. According to high-ranking army authorities, the greatest significance is to preserve, and strengthen the technical system. It also aims to increase technical knowledge, reduce the number of officers on active service, and keep the average age younger.

Non-military personnel mainly include two categories. One is those that are engaged in scientific research, engineering technology, pedagogical work, journalism, publishing, literature and art, health and sports; the other is the administrative staff in hospitals and logistics departments.

This reform effort is to solve the overstaffing of the military officers' contingent, which has long been a problem hindering modernization and standardization of the Chinese army.

The military command posts of corps leader, division leader, regiment leader, battalion leader, company leader and platoon leader are established in accordance with combat requirements. They are separated from the work of technical personnel. Previously, the ranks of technical personnel were equated with the rank of military commanding officers. This was not in accordance with their responsibility, and adversely affected their promotion.

The regulation says that non-military personnel belong to the army establishment, and retain their military status, but receive no military rank.

The service system for Chinese army officers, which will soon be implemented, will have an age restriction in an effort to keep the rank of army officers younger. However, it takes a much longer time to train professional technical personnel. They need years of experience to boost their technical levels.

With this in mind, the drafters of the Provisional Regulation for Non-Military Personnel are flexible on the age restriction. But it does stipulate minimum service years for non-military personnel in the army before they can transfer to civilian work: 15 and 30 years. It also sets the retirement age for non-military personnel at 60 for men, and 55 for women.

Since the promulgation of the regulation in April, some 40 army units have finished trial work in implementing it. They include institutions of higher learning, scientific research, and health and sports.

Implementation of the non-military personnel system in the "August 1" Film Studio, the army Daily, the army Song and Dance Ensemble, and the "August 1" Sports Corps - all directly attached to the army headquarters - is also actively under way.

The implementation of non-military personnel regulation in the army will be completed this year. This reform will involve 100,000 people.

The Central Military Commission has clearly stated that non-military personnel will, in addition to retaining their military status, receive similar pay, similar political treatment and other similar benefits.

According to ranking authorities of the Chinese army, the present regulation is only provisional. With the implementation of reform in the army, and experience, an improved non-military personnel regulation will be drafted.

EAST REGION

**Shandong Creates Two New Cities**  
*40050389c Jinan DAZHONG RIBAO in Chinese*  
*26 Apr 88 p 1*

[By Lu Minmin 7627 3046 3046]

[Text] With the approval of the State Council, Yexian is abolished to establish Laizhou City (with the rank of a

county); the administrative jurisdiction of Yexian is to be that of Laizhou City.

Tengxian is abolished to establish Tengzhou City (with the rank of a county), the administrative jurisdiction of Tengxian is to be that of Tengzhou City. Ceremonies were held on 26 April and 1 May in Laizhou City and Tengzhou City respectively before each of the two cities began to conduct official business.

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